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# China Report

ECONOMIC AFFAIRS

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2 January 1985

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JINGJI RIBAO ON SOCIALIST COMMODITY ECONOMY, PART I

HK030800 Beijing JINGJI RIBAO in Chinese 19 Nov 84 p 3

[Article by Ma Hong [7456 3163]: "Commodity Economy Under the Socialist System"]

[Text] Since the Third Plenary Session of the 11th CPC Central Committee, we have implemented the policy of enlivening the domestic economy and opening to the outside world and have gradually carried out a series of reform. Practice over the past 5 years has proved that the CPC Central Committee's policies and principles are completely correct, have produced good results, and are wholeheartedly supported by the people of the country and appreciated by friends abroad. We are carrying out a very significant probe into the problem of building a socialist country with Chinese characteristics, as suggested by Comrade Deng Xiaoping.

At present, urgent questions facing theoretical workers in the social sciences are as follows: What are the theoretical bases for working out these policies and carrying out economic structural reform? Why is it that by doing so the productive forces can be developed at a faster pace and the people can reap more benefits? Is this progressing or retrogressing? Does this comply with or violate socialist principles? These questions have created doubts for a small number of people in China. They are worried that bourgeois elements will emerge with the propagation of the policy of letting some people become better off first, that the gap between the hinterland and the coastal areas will be expanded following the development of coastal cities, and that reforms will cause price rises and inflation. Abroad, some Western bourgeois scholars hope in vain that the above policies will lead us to a market economy similar to that of the capitalist world, and some people malign us by saying that we are taking the revisionist road. The 3d Plenary Session of the 12th CPC Central Committee has given scientific and systematic answers to these major theoretical and practical questions.

The "Decision of the CPC Central Committee on Economic Structure Reform" (hereinafter called the "Decision") approved by the 3d Plenary Session of the 12th CPC Central Committee complies with China's national conditions and is a summation of a better and more profound understanding of the nature of China's socialist economy. An important point is that the "Decision" has abandoned

the concept that commodity economy is incompatible with socialist planned economy, admitting that commodity economy is inherent in socialist planned economy. It explicitly points out: Socialist economy "is a planned commodity economy based on public ownership. The full development of commodity economy is an indispensable stage in the economic growth of society and a prerequisite for achieving our economic modernization."

However, our theoretical and practical workers do not have a unanimous understanding of the nature of China's socialist economy at the present stage and, in particular, of the necessity and importance of developing the commodity economy. Thus further study of this problem is quite important for correctly implementing of the CPC Central Committee's policy of enlivening the domestic economy and opening to the outside world and for promoting reform of the economic structure. I would now like to analyze the developmental history of the commodity economy and of people's understanding of the role and destiny of commodity economy in the socialist historical period. Also, I would like to air my basic views on the concept that has arisen over the past few years that the socialist economy is not a commodity economy.

#### 1. Changes in the Understanding of the Role of Commodity Economy in the Socialist Period

The reason the socialist economy is a planned economy under which commodity production and commodity exchange are energetically developed is that it has the attributes of commodity economy. This understanding is a major breakthrough in the traditional socialist economic theory. It is not strange that in the past some comrades had different views on this point. However, our understanding can gradually come closer to and comply with objective reality as long as we profoundly study and sum up the experiences and lessons in domestic and foreign socialist construction according to the principle that practice is the only criterion for judging truth.

Commodity exchange emerged in the last period of the primitive commune. In slave and feudal societies, commodity production served the slave and feudal system; in capitalist society, commodity production occupies a dominant position, so that even the labor force has become a type of commodity. Will commodity production, commodity exchange, and commodity economy step down from the stage of history in socialist society? Can socialist planned economy co-exist with commodity economy? Does commodity economy exclude planned economic development? The views of Marxists on these questions have been changing and developing over the last 100 years.

While analyzing capitalist commodity production in "Das Kapital," Marx predicted that the same type of production of products carried out by Robinson Crusoe on the isolated island for his own various needs would reoccur in a society under public ownership and that therefore the relationships between commodities and commodity fetishes would wither away. Subsequently, in 1875, in "critique of the Gotha Program," he explicitly pointed out: At the preliminary stage of a communist society (that is, socialist society), "producers do not exchange their products, the labor consumed for the production of products will no longer manifest itself in the value of these products."

("Selected Works of Marx and Engels," Vol 3, p 10) In other words, there is no commodity production in socialist society. For several decades after the deaths of Marx and Engels, due to the nonexistence of socialist practice, while expounding the basic characteristics of socialist society, theorists in scientific socialism generally regarded socialist society as one without commodity production and commodity exchange, that is, a society without a commodity economy.

On this ideological basis, in "The State and Revolution," written before the October Revolution, Lenin put forward the supposition that under socialist conditions, the entire community should become a "syndicate" in which all members of the community were "employees of the syndicate." Since the entire community would become a big company, the relationships between commodities would no longer exist. This supposition of Lenin's reflected the common understanding of socialists at that time.

After the victory of the October Revolution, the Russian communists began to build a socialist country after a socialist pattern which did not contain relationships between commodities. In 1919 in its party program, the Russian Communist Party took as its target the rapid elimination of the relationships between commodities and currency. But Lenin soon discovered that this would not do. So, in 1920, Lenin began to shift to a new economic policy under which commodity exchange between industry and agriculture was developed, small peasants were allowed to carry out free trade, "state capitalism was shifted to state regulation of commerce and currency" ("Collected Works of Lenin," Vol 33, p 73), and state enterprises were required to carry out independent economic accounting, to assume sole responsibility for their own profits or losses, and to take part in market activities. This policy was a success. It promoted the rapid recovery and development of the socialist economy.

Although the new economic policy scored great achievements in actual life, in theory the question of whether the socialist economy was a commodity economy remained unanswered. As early as the period of the new economic policy, "leftist" (Trotskyist) theorists already claimed: With the existence of many new economic forms, the law of value can display its regulatory role only when capitalist commodity economy exists. Any growth of relationships between commodities and currency and of the role of the law of value means the growth of the capitalist forces, and the deepening of socialist transformation means the strengthening of the role of another economic law--the law of socialist primitive accumulation. Following Stalin's "leftist" economic policy, stress on economic activities was once again laid on material targets. After agricultural collectivization, Stalin pointed out that the working class and the peasant class exist and that there should be exchange due to the coexistence of the two ownership systems--the ownership system by the whole people and the collective ownership system. But the actual policy the Soviet Union adopted at that time was depriving the peasants of their rights; therefore, the questions of whether the exchange between the two ownership systems was commodity exchange and of whether the law of value displayed its role remained unanswered. The "economic accounting system" adopted by state enterprises at that time was no longer an economic accounting system with sole responsibility

for profits or losses, as proposed by Lenin. Value, price, and cost were regarded merely as accounting tools in Stalin's economic accounting system. Only in his later years did he admit in his article "On the Question of the Socialist Economy of the Soviet Union," written in 1952, that there were commodity production and commodity exchange under the two public ownership systems and that the law of value should be applied. In the meantime he maintained: The production materials circulated under the system of ownership by the whole people were not commodities, as "they have gone beyond the scope of the law of value." ("Selected Writings of Stalin," p 613) The law of value did not play its regulatory role even in the production of agricultural materials. Stalin also stressed that it was necessary to limit commodity production and the role of the law of value so as to replace commodity exchange with the exchange of products. Therefore, we can say that Stalin never regarded the socialist economy as a planned economy in which socialist commodity production and commodity exchange should be energetically developed. Although he probably intended to build a product economy as predicted by Marx and Engels (Marx' original words were "free exchange" economy) or a semi-product economy, in reality he merely created a natural or semi-natural economy.

Based on the above understanding, the economic management system in Stalin's era was not worked out in line with the planned development of commodity production and commodity exchange, but according to the needs of a semi-product economy, which was in fact a semi-natural economy. Products were not regarded as commodities and there was no exchange of equal values. Instead, he enforced mandatory plans, removed regulation by market mechanism, and adopted highly-centralized administrative methods. These methods had proved successful in dealing with heavy industry, making preparations for the war to defend the country, and healing the wounds of the war. But the shortcomings of these methods were becoming more prominent following the development of the economy to a new stage and, in particular, after the healing of the wounds of the war. Although Khrushchev and Brezhnev carried out some reforms, no great progress was made. As a result, the Soviet economy could not be enlivened, the rate of development was slow, technology was at a standstill, economic results were not good, and the people were not benefitted much.

We have also undergone a tortuous course in understanding the socialist economy.

In the beginning, we followed Stalin's theory and followed his socialist mode and system. In 1956, in the course of summing up the First 5-Year Plan, we began to understand the shortcomings of the Soviet Union's system of excessively centralizing decisionmaking rights. This understanding manifested itself in the decision of the Eighth CPC National Congress. It was also reflected in Comrade Mao Zedong's article "On the 10 Major Relationships" and in Comrade Chen Yun's articles and, in particular, his speech at the Eighth CPC National Congress. Unfortunately, our correct ideas were not implemented. Contrary to this, following Comrade Mao Zedong's criticism of "anti-rashness" in 1957, "leftist" erroneous ideas became rampant.

Beginning in 1957, Comrade Mao Zedong's viewpoints frequently changed. On the one hand, he made some good suggestions on developing China's commodity production and commodity exchange. For example, while reading Stalin's "On

the Question of the Socialist Economy of the Soviet Union," he criticized Stalin's viewpoint that production materials were not commodities and of refusing to sell agricultural machinery to the peasants. He pointed out: China is a country where commodity production is backward, more backward than in Brazil and India. Commodity production should be greatly developed. Commodities do not refer merely to personal consumer goods; some production materials are also commodities. Even if socialist ownership by the whole people is completely realized, some localities will still need commodity exchange. In March 1959, in reference to "egalitarianism and indiscriminate transfer of resources" and "stirring up a wind of communism" in the rural areas, he explicitly pointed out: The law of value "is a great school. Only by using it can we teach tens of millions of cadres and millions upon millions of people and can we build our socialism and communism. Otherwise, nothing is possible." On the other hand, in his later years he suggested that socialist commodity production and exchange of currency were similar to those in the old society and that they should be restricted under proletarian dictatorship.

In China's theoretical circles, Comrade Sun Yefang was the first to criticize the Soviet Union's economic mode and system, pointing out that they were a product of the theory of natural economy. He also sharply criticized Stalin's and other Soviet economists' erroneous viewpoint which regarded value and the law of value as alien factors in the socialist economy. But Comrade Sun Yefang did not agree with the concept that the socialist economy is a planned commodity economy. One of his reasons was that production materials were not commodities and that the means of consumption were commodities only when they were used for exchange.

By studying and summing up the experiences and lessons in socialist construction in China and abroad and through the practice of enlivening the domestic economy and opening to the outside world over the past 5 years, we have now enhanced our understanding of the nature of the socialist economy and of the importance and significance of developing the socialist commodity economy. Therefore, we have the conditions to put forward new theses on the nature and characteristics of the socialist economy. These new theses are expounded in the chapter on socialist commodity economy in the "Decision" of the 3d Plenary Session of the 12th CPC Central Committee.

## 2. The Socialist Economy is a Planned Commodity Economy Based on Public Ownership

The socialist economy is a planned economy. This is one of its characteristics and must be affirmed. But affirming this point does not mean negating the fact that the socialist economy also has the attributes of commodity economy. The opposite of commodity economy is not planned economy, but natural economy. Comrades maintaining that socialist economy is not commodity economy actually set planned economy against commodity economy or regard commodity economy as an alien force in the socialist economy. Practice in China's economic structure reform over the past few years has proved that the above view is unrealistic. One important aspect of economic structure reform is that while upholding the planned economy, it is necessary to organize the economic activities

of the entire society according to the needs of the commodity economy, to manage the principal aspects well and enliven the minor aspects, and to give vitality to urban and rural economic life under the prerequisite of developing the microeconomy in coordination. We are required to admit in theory that the attributes of the planned economy and the attributes of the commodity economy can be made consistent in the socialist economy and that a combination and meeting point between them can be found in practice. We should not embark on the old road of choosing either one or the other.

Why do we say that the socialist economy has the attributes of commodity economy? There are two reasons:

A socialist country has an important basis and condition for the emergence and development of the commodity economy--social division of labor. Lenin pointed out: "Social division of labor is the basis of the commodity economy. The processing industry should be separate from the mining industry, each having its own small departments producing special products of the commodity type and carrying out exchange with other production departments. Thus the development of the commodity economy will enable the number of independent industrial departments to increase. (Lenin: "Selected Works: The Development of Capitalism," Vol 1, p 161) In another article Lenin stressed: "The commodity economy develops along with the development of the social division of labor." (Lenin: "Collected Works: On Economic Romanticism," 1911, p 151)

Of course, the social division of labor is merely a general prerequisite for commodity production. Without different economic bodies having independent economic interests and without the difference between social and local labor, there can only be exchange within economic bodies themselves, and commodity exchange between different commodity producers is impossible, even if there is a social division of labor. Are there then different economic bodies having independent economic interests in the socialist economy? The answer is affirmative.

First, under the socialist system there are two public ownership systems, the ownership system by the whole people and the collective ownership system. Logically, collective enterprises are independent commodity producers. Their economic relationships both with the state and among themselves should be of the nature of commodity economic relationships based on an exchange of equal value. Negating these commodity economic relationships will result in adopting a policy that harms the peasants' economic interests, and severe consequences are unavoidable. Such lessons are numerous both in the International Communist movement and in China. We should also understand that commodity exchange exists not only between the two ownership systems, but also between different enterprises under various ownership systems. Second, take urban enterprises for an example: In the socialist historical period, because urban enterprises remain the principal means of life, labor capability in the enterprises is the private property of laborers. Between laborers there are still differences in material interests based on consistent fundamental interests. These differences in material interests should be regulated according to the principle of equal exchange of equal labor, as Marx clarified long ago. Practice has proved that

under the system of a division of labor determined by the course of the socialization of production, because individual laborers can fulfill only one or several production procedures instead of producing a whole product, products will be manufactured by enterprises which are formed by laborers. Therefore, exchange of equal labor between laborers should approximately manifest itself in an exchange of equal value between state enterprises. This determines that each state enterprise has relatively independent economic interests. Moreover, the relationships between state enterprises cannot but be dealt with as those between relatively independent commodity producers, as under the socialist system the ownership rights to production materials can be separated from the operational rights. Their relationships cannot but abide by the principle of replacement of equal value and exchange of equal value. This is, the principle of commodity economy. In other words, the contradictions among the economic interests of enterprises can be regulated only through the relationships between commodities and currency, which use an exchange of equal value as their basic characteristic. Thus, it is not strange that there are still extensive commodity relationships in a socialist country.

If we say that the fundamental consistency of material interests brought about by the social public ownership of production materials is the objective basis for carrying out the planned economy, then the differences of material interests between people are the direct cause for commodity economy being inherent in socialist economy.

In short, it is incorrect to regard commodity relationships as alien factors of the socialist economy. As Comrade Deng Xiaoping pointed out when analyzing China's rural socialist economy: "It is certain that as long as production expands division of labor increases, and the commodity economy develops, lower forms of collectivization in the rural areas will develop into higher forms." ("Selected Works of Deng Xiaoping," p 275) Comrade Deng Xiaoping directly linked the development of the social division of labor and of commodity economy with the development of socialist collectivization, affirmed the existence of commodity economy in socialist society, and stressed the necessity for developing the commodity economy. This is a major contribution to the Marxist theory of the socialist economy.

Some comrades do not agree with viewing the socialist economy as a commodity economy. Their reasons are as follows: In socialist society, the labor force is no longer a type of commodity, and land, rivers, and mines are not the objects of business. Whether the labor force is a type of commodity and whether land, rivers, and mines can be bought and sold are not the symbols of the commodity economy. In a simple commodity economy, the labor force is not a type of commodity. Regarding the labor force as a type of commodity is a characteristic of the capitalist commodity economy. The fact that land and mines in socialist society cannot be bought and sold shows that commodity relationships under the socialist system are subject to certain restrictions, but this does not negate that the larger part of socialist economic activities are carried out through the relationships between commodities and currency. Therefore, on the whole, socialist economy is still commodity economy.

A prevalent viewpoint is this: Instead of saying that the socialist economy is a commodity economy, we can only say that there are commodity production and commodity exchange in socialist society, because the production and management of the main part of the socialist economy--the state-owned economy--are not controlled by the law of value. This actually adheres to Stalin's viewpoint in "On the Question of the Socialist Economy of the Soviet Union," which affirms that there are commodity production and commodity exchange in the socialist society, but refuses to admit that the socialist economy is a commodity economy. Stalin did not admit that the production materials circulated under the system of ownership by the whole people were commodities and that state enterprises were relatively independent commodity producers and operators. Since socialist commodity production and commodity exchange are confined within economic contacts between the two public ownership systems and within the scope of citizens buying personal consumer goods in state-owned shops, and the fact that state enterprises are relatively independent commodity producers and operators is negated, it is impossible to talk about the socialist economy being a commodity economy. Therefore, over the last 2 years, following the emergence of the viewpoint of negating the idea of the socialist economy being a commodity economy, some people have refused to admit that the production materials circulated under the system of ownership by the whole people are commodities and that state enterprises are relatively independent commodity producers and operators that can and must carry out independent accounting and assume sole responsibility for their own profits or losses. These viewpoints do not comply with the current reform of the economic structure. At present, both in cities and the rural areas, it is necessary to energetically develop socialist commodity production and commodity exchange, reduce the scope of mandatory production and distribution of products, make better use of economic methods and the lever of value to realize state plans, gradually expand the regulatory role of market mechanisms, break away from the barriers of departments and regions, and carry out market competition between various economic forms and circulation channels. All this can be explained in a scientific manner only by applying the idea that socialist economy is a commodity economy.

Some other people maintain: If socialist economy is regarded as a commodity economy, state enterprises should appear as commodity producers and operators and become independent economic bodies. This means the negation of the system of ownership by the whole people, the negation of the fact that a socialist country exercises ownership rights over production materials on behalf of the whole people, and the negation of the fact that laborers in a socialist country maintain their relationships on the basis of common occupations and joint labor. This viewpoint merits discussion.

First, we should make a clear distinction between socialist commodity economy and commodity economy based on private ownership. True, developing the socialist commodity economy will mean recognition of the relatively independent nature of state enterprises, which are relatively independent commodity producers. But such an "independent nature" is relevant and is different from the complete independence of commodity producers in the commodity economy based on private ownership. Ownership rights, usage rights, and management rights are distinct.

takes place, the economy of society will reach the communist stage. Some Chinese economic theorists maintain that the development of the socialist commodity economy is a quantitative development and that, in essence, the socialist commodity economy is different from the capitalist commodity economy.

Experience has proved that the commodity economy develops following the growth of the socialist economy. This shows that it is necessary to develop the commodity economy in the socialist period. As for eliminating the commodity economy, this will take a long historical period, after which society will be filled with material wealth.

In "Anti-Duhring," Engels said: "Political economics cannot remain the same while dealing with different countries and different historical eras." "Political economics is, in essence, a science of history, which deals with historical materials, that is, materials that frequently change." ("Selected Works of Marx and Engels," Vol 3, p 186) Engels once criticized some people who always tried to find some ready-made, unchangeable, and eternal definitions and concepts from Marx's articles to apply them to practice instead of using practice to judge the correctness of a theory, concept, and definition so as to enrich them with the realities of life. Marx pointed out: "Needless to say, when matters and their relationships are not regarded as fixed but as changeable things, their reflection on the mind and their concept can change and become mishappen. We should not confine them to a rigid definition but should expound their historical or logical formation." ("Das Kapital," Vol 3, p 17) This basic principle of Marxist historical materialism should be taken as the guiding principle and the basis of methodology for probing into the nature of the socialist economy.

So, in line with the practice and experience in socialist construction, the "Decision" admits that the socialist economy is a commodity economy. This is a theoretical summation of the objective development of the socialist economy.

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That state enterprises have the right to use and manage production materials does not change the nature of production materials being owned by the whole people and does not change the ownership right a socialist country exercises over production materials in the interests of the whole people. Therefore, fundamentally speaking, developing the socialist commodity economy will not change the nature of the socialist ownership by the whole people. In this sense, the socialist commodity economy is a commodity economy of a special nature. In "On the 10 Major Relationships," Comrade Mao Zedong explicitly pointed out: "All production units should have independence which is linked with unanimity." ("Selected Works of Mao Zedong," Vol 5, p 273) This in fact involves the position and rights of enterprises, which are relatively independent commodity producers.

Of course, admitting that socialist economy has the attributes of commodity economy and requiring state enterprises to function as relatively independent commodity producers and operators means shifting state enterprises from the highly centralized administrative and managerial system of direct allocation and use of production materials by the state to the operational system of enterprises carrying out independent economic activities suited to the development of the commodity economy with the approval of the state. Only thus can the initiative of enterprises be brought into full play and their vitality increased. In the past, due to the negation of the socialist economy being a commodity economy and of state enterprises being relatively independent economic bodies, the state directly allocated and used production materials and directly organized enterprises' production and marketing. As a result, enterprises became subsidiary bodies of state administrative organs. Practice has proved that this administrative and managerial system seriously hampered the development of the productive forces.

Experiences tells us that it is impossible to carry out socialist modernization on the basis of the natural economy and without energetically developing the socialist commodity economy. In particular, the developing socialist countries should conscientiously get rid of the influence of the natural economy if they want to promote the rapid development of the social productive forces, so as to enable socialist society to enter a great development stage of the commodity economy. At the present stage, the development of China's socialist commodity economy means the development of the social productive forces and the progress of socialist construction.

The "Decision" points out: "The full development of the commodity economy is an indispensable stage in the economic growth of society and a prerequisite for our economic modernization. It is the only way to invigorate our economy and prompt enterprises to raise their efficiency, carry out flexible operations, and rapidly adapt themselves to complex and changing social demands. This cannot be achieved by relying only on administrative means and mandatory plans." This is quite correct. With regard to this point, some people have asked if commodity production and commodity exchange will develop further with the further development of socialism. Lenin's view was that the commodity economy existed as long as there was a social division of labor. Some Soviet economists maintain that the development of commodity economy in the socialist period is merely a quantitative change, and that when a qualitative change

JINGJI RIBAO ON SOCIALIST COMMODITY ECONOMY, PART II

HK050552 Beijing JINGJI RIBAO in Chinese 21 Nov 84 p 3

[Second and last part of article by Ma Hong [7456 3163]: "Commodity Economy Under the Socialist System"]

[Text] Though still commodity economy, socialist economy is different from either small commodity economy or capitalist commodity economy. It is commodity economy with socialist features. On socialist commodity production and exchange, the resolution of the Sixth Plenary Session of the Eight CPC Central Committee pointed out: "Such commodity production and exchange of commodities differ from capitalist commodity production and exchange of commodities because they take place in a planned manner on the basis of the socialist system of public ownership and not under an anarchic state on the basis of the capitalist system of private ownership." This is a scientific manifestation of the features of socialist commodity economy. Just as the "resolution says, socialist commodity economy is planned commodity economy based on the socialist system of public ownership. Its features are expressed in the following two ways:

1. Socialist commodity economy is a commodity economy based on public ownership without the participation of capitalist. (Of course, given the existence of many economic forms, including the introduction of some foreign capital, in the realistic economic life of our socialist society, there is still the participation of capitalists in non-socialist commodity economy. But commodity economy which has the nature of state capitalism is only a supplement to socialist commodity economy. It occupies a small part of the total national economy. The capitalists involved in such commodity operations act under the control and supervision of the socialist state.) The relations that socialist commodity economy embodies are relations of mutual help and cooperation and equality and mutual benefit between socialist laborers. It no longer embodies the relations between exploiters and the exploited under the system of hired labor. Since socialist commodity economy is based on public ownership and the means of production are possessed by united laborers, the scope of the commodity economy has been subject to certain limitations. Labor is no longer a commodity. Land, rivers, mineral resources, and so forth are no longer the targets of free trade. The development of socialist commodity economy cannot possibly lead to capitalism. This is different from capitalist commodity economy and from small commodity economy. Still, it has the general features

of commodity economy. Therefore, in socialist commodity production there still exists the problem of a duality of labor (physical labor and mental labor) and duality of commodity (use value and value). In socialist commodity economy relations, apart from the need to stress mutual help and cooperation between producers and to stress subordination partial to overall interests and immediate to long-term interests, as dictated by the unanimous fundamental interests of the system of public ownership of the means of production, in all economic activities we must take into consideration the differences in the interests of various sectors, implement the principle of exchange of equal value, and meet the requirements for equality and mutual benefit.

2. Socialist commodity economy calls for planned development, given the introduction of planned economy in the whole society, and is not anarchic commodity economy. In socialist economy based on the socialist system of public ownership of the means of production, it is necessary and also possible for the state representative of the interests of all working people to regulate the development of the whole social economy in a planned manner. This is basically beyond the power of capitalist society. Only in this way can socialist commodity economy avoid the anarchy in production and exchange in capitalist commodity economy and show harmonious development in a planned and proportionate manner.

Thus we can see that socialist economy has the attributes of both planned economy and commodity economy. It is commodity economy under the guidance of plans, or planned economy based on commodity economy.

In previous discussions, some comrades did not favor the proposed idea of "planned commodity economy." They said: "The idea of socialism being planned commodity economy is still based on commodity economy--with planned economy put in abstract terms and cast aside." In fact, planned economy refers to the planned distribution of socialist labor in the national economy, or to a social economic system of guiding, organizing, and regulating social economic activities in a planned manner. Here, "guiding, organizing, and regulating social economic activities in a planned manner" must be based on the economic activities of numerous production units and operational units. The problem is whether these economic activities are natural economic activities or commodity economic activities. Since commodity production and commodity exchange exist in the two versions of socialist economy, or within the socialist state economy, and since economic ties between socialist enterprises must be realized through the relations between commodities and currency, the state's guidance and regulation of the national economy must be based on guidance and control over the whole sphere of social commodity activity. Our practice of planned economy in the past 30-plus years has shown that treating the socialist national economy as dominating natural economy would result in minor aspects (microeconomic enterprise activities) being rigidly controlled and would also make it impossible to really control or take good care of major aspects (the direction of development of the national economy and major proportionate relations). It was a misunderstanding of the idea of natural economy and its harmful practice that caused such evil consequences as an end to technical development in certain fields, a drop in efficiency, and a proportionate imbalance.

Certain comrades subjectively want to practice the communist planned economy of "doing away with the interference of 'value.'" But experience has shown that the idea of treating the socialist economy as a product economy devoid of the relations between commodities and currency in the future communist society is divorced from reality. In practice, the envisioned product economy will inevitably become a variation of natural economy. Only planned economy based on commodity economic activities can reflect the objective demands and the natural trends in the development of socialist economy. The idea has been proposed that the two points, "socialist planned economy is planned commodity economy" and "socialist economy is planned economy given the existence of commodity production and commodity exchange," complement each other. This helps in drawing a clear distinction between socialist commodity economy and capitalist commodity economy. It also helps in getting rid of the wrong idea that lumps our socialist planned economy with planned economy under the backward conditions of natural economy and planned economy under the conditions of the future product economy.

It is necessary to separate socialist commodity economy from capitalist commodity economy. The concept of commodity economy is more inclusive than market economy. It can be budding and underdeveloped commodity economy, or developed commodity economy or restricted special commodity economy. It can also be commodity economy based on private ownership or public ownership.

To understand the fundamental differences between socialist commodity economy and capitalist market economy, the most important thing is to understand the nature of the socialist market which allows for regulation. In capitalist commodity economy, the market factor reigns supreme. Although the state can use certain factors such as tax rates, credit policy, interest rates, and so forth to influence economic development, on the whole, the bourgeois state's economic policy decisions are made and carried out by monopoly capitalist groups. Monopoly groups oppose state intervention in their own interests, making state economic policies weak and impotent. Working people's interests and demands fall especially short of being met. Recognizing the nature of socialist economy as commodity economy also suggests giving play to the regulatory role of the market mechanism in microcosmic enterprise policy decisions. But the market in socialist commodity economy is fundamentally different from the market in capitalist economy. Because the socialist state is the socialist owner representative of all laboring people and is the master of the state economy, it has at its disposal various legal, administrative, and economic means (including wages, interest, tax collection, pricing, and other economic levers) to effectively regulate the market. Thus, actual possibilities are created that enable the market mechanism to be restrained by state macrocosmic regulation and enterprise microcosmic policy decisions to be linked with state macrocosmic policy decisions. Enterprise microeconomic activities are made to proceed within the limits defined by national economic plans. This also means that the socialist state is entirely capable of consciously using the law of value to achieve the aims of the planned economy.

To clearly define two distinctions--the distinction between planned economy and natural economy and the distinction between socialist commodity economy and capitalist commodity economy--this will help our economic and planning

systems to thoroughly get rid of the influence of the idea of natural economy, giving a push to reforms favorable to the development of commodity production and commodity exchange. On the other hand, this will help to strengthen the planned nature of our socialist commodity economy and prevent the anarchy likely to appear in the development of commodity economy thus really guiding the development of socialist commodity economy toward the path of planned development.

#### 4. To Recognize Socialist Economy as Planned Commodity Economy Provides a Theoretical Basis for Carrying Out Economic Reforms and Introducing the Guideline of Enlivening Things at Home and Opening Up to the World

For a long time, our socialist economic activities proceeded under the economic system of decisionmaking power being heavily concentrated in administrative organs, production and operations being organized on the basis of administrative zones and administrative levels, and administrative orders being mainly considered a regulating factor. The features of this system are: monopolizing practically everything where plans are concerned; state-controlled purchase and marketing of grain, cotton, and so forth where circulation is concerned, unified control and distribution where labor is concerned; and controlled receipts and payments where monetary matters are concerned. "Control" is the basic feature of this system. Just as the "resolution" says, this is a way of doing things according to fixed patterns. This system binds the entire national economy in a straitjacket, killing the vitality of enterprises and the enthusiasm of laborers, and inevitably retarding technical progress, the development of production, and the improvement of economic results.

But why was it impossible for so long to change such an irrational system? This was directly related to the long period during which we did not get rid of the influence of natural economy and did not recognize the nature of socialist economy as commodity economy. Not recognizing the commodity nature of socialism, we could only organize the national economy according to principles and use administrative orders to tightly control enterprises, thus bringing about the above defects. This is why in the past 30-plus years, every time we found a certain product in short supply and strengthened planning and control, this product became all the more controlled and in greater shortage. This also means that the more we stress strengthening so-called planned management with strict restrictions on the development of commodity economy, the greater the difficulties besetting planned economy. Every time we relax restrictions on the development of commodity economy, the economy is enabled to develop rapidly. This then allows smoother planned development of the economy and better economic results. Only by thoroughly overcoming the influence of natural economy, affirming the commodity nature of socialist economy, and clearly calling for energetic efforts in developing socialist commodity economy can we, under the guidance of national economic plans, make better use of the market mechanism, enliven the economy, and stimulate the vigorous development of social productivity.

Why is it necessary to recognize socialist economy as commodity economy and take it as the basis and prerequisite for carrying out economic reforms, enlivening the economy, and stimulating the rapid development of social productivity? This is because:

First, only by recognizing that socialist economy has the attributes of a commodity economy can we smoothly realize various central policies on economic reforms and perfect the socialist economic system.

In the past few years, on the basis of the great success of our rural economic reforms and a wealth of experience in experiments with urban economic reforms, we have adopted a series of measures for cities and introduced economic reforms in urban state industrial and commercial undertakings. The aim of these measures is to gradually establish an economic management system marked by "control in general and proper control in major respects and a loosened grip and flexibility in minor respects." In other words, this means the realization of transformation from the previous economic pattern of regulation - which involved organization based on administrative zones, administrative levels, and administrative principles and chief reliance on administrative orders that had formed under the influence of the idea of a socialist planned commodity economy. To raise consciousness in carrying out the central "resolution," we must link the current partial reform measures with the general reform plan and recognize the content and significance of various concrete measures from the high plane of the targeted economic reform pattern. Otherwise, we will have a one-sided idea of these measures and even use hackneyed concepts as a basis for understanding and interpreting new slogans, concepts that have formed under the influence of traditional patterns. The result is that these new slogans and new measures are liable to change and become warped and distorted in practice. Thus, not only is the envisioned target not attained but new chaos will arise.

For example, the slogan of "simplifying administration and delegating power" was originally proposed given recognition of enterprises as relatively independent commodity producers and operators. Relatively independent commodity producers and operators being what they are should have decisionmaking power in operations, or the power to make microcosmic economic decisions based on market conditions and the state's relevant laws and regulations. If things are not interpreted this way, in carrying out the decision on "simplifying administration and delegating power," there are likely to appear two situations: one is that certain less important decisions are left to the discretion of enterprises, while important microcosmic decisions (decisions on everyday enterprise production and management, such as those concerning the kind of product to be produced and its specifications, the volume of production, the source to be tapped for raw materials, the prospective customer to whom products are to be sold, and so forth) are strictly confined to administrative leadership or, worse, Given the checks and balances within various types of power and one line keeping tight rein on another, the important decisionmaking power on production and operation matters is not held by enterprises, and less important decisions cannot be left to those at lower levels. Another situation is the actual delegation of power to lower levels that is not accompanied by a display of skill in using various legal, administrative, and especially economic means on the basis of the needs of an established planned commodity economy to influence the market and to regulate the independent enterprise economic activities and guide them onto the path of planned and proportionate development. The result will be a potential source of chaos.

How to interpret the slogan of "doing away with separation between departments or organs and taking central cities as a basis for organizing economic networks" also provides a clear example. The "contradictions between departments or organs" that had long existed in our national economy rose from the previous management system of concentrated administration. Under such a system, since the whole society was regarded a big factory or a big company with state administrative organs directing all the economic activities of the whole society (including macroeconomic and microeconomic activities), the national economy could only be organized along the lines of the administrative system, placing up to 100,000 state enterprises in the whole society separately under state administrative departments and local leadership organs and leading to the formation of so-called "separate departments" and "separate organs." However, neither "departments" nor "organs" wanted to be independent systems, with the formation of so-called "complete systems." In social mass production, extensive production-supply-sales ties, intricate and complicated, exist between enterprises. With the economy organized on the basis of relations according to a hierarchy of authority, the ties between higher and lower levels must be counted on as the main factor. There is not only mutual separation but also even a mutual blockade. Thus, artificial obstacles to the establishment of extensive ties between enterprises are created. This also causes enterprise involvement with being "big and complete" and "small and complete." Thus, "contradictions between departments or organs" became increasingly serious. Given no change in such an existing management system with concentrated administration, the organization of the economy on the basis of administrative departments will sever the economic ties between enterprises belonging to different departments or organs. The organization of the economy according to areas will sever the economic ties between enterprises belonging to different areas. This makes it impossible by any means to solve the contradictions between departments or organs.

The organization of economic networks with central cities as the core is suggested against the background of a totally different economic system. This is nothing but socialist planned commodity economy. In commodity economy, numerous commodity producers establish economic ties between them through trade, forming a planned and unified market or an economic network embracing the whole society. The focus of such an economic network is the central city. The influence of the central city through the economic activities of its industrial and commercial enterprises and communications and transportation undertakings extends to vast areas to reach the whole country and even the whole world. In the period before the socialist society, central cities more or less formed spontaneously. In socialist planned commodity, the state can consciously use the aforesaid role of central cities to coordinate, guide, and stimulate the economic development of areas affected by it.

At present some comrades' interpretation of the slogan of relying on central cities as a basis for organizing economic networks is entirely incorrect. They hold that so-called reliance on central cities as a basis for organizing economic networks is just a matter of committing enterprises belonging to the central authorities, provinces, and autonomous regions to central cities management and putting counties and cities in those areas of cooperation under central cities, with cities continuing to follow hackneyed practices in

enterprise management. Thus, enterprises are still 'appendages' of city administrative organs or "beads on the abacus" at their command. In fact such an interpretation runs counter to the original idea of building areas of cooperation with certain major cities as centers. If this is done, new departments or organs as separate units will form. It will be impossible to improve the economic ties between areas and guide the development of vast areas. Contradictions between central cities and neighboring fraternal areas will also be exacerbated.

Second, only by recognizing the attributes of commodity economy in socialist economy can we really shift our economic work onto the orbit centering on the improvement of economic results.

Stress on economic results is a basic demand of socialist economic work. Marx pointed out that under the future socialist system, united producers will rationally readjust material conversion between themselves and nature using a minimum expenditure of labor to obtain maximum material wealth. But in the practice of our socialist construction, there often appears a low efficiency in economic activity, great waste, incompatibility between supply and demand, and a very slow increase in the volume of end products good for consumption despite quite a high rate of growth based on total output value. There are not many actual benefits for the people. There are even occasional proportionate imbalances in the national economy, causing a passive state marked by serious unsettlement in social economic life. In recent years, the party and the government have once and again stressed shifting our economic work to the orbit of improving economic results. But the results obtained have not been [words indistinct]. What is the reason? It should be said that the main problem lies in the management system of concentrated administration that has formed under the influence of the idea of natural economy, seriously obstructing the development of commodity production and commodity exchange and running counter to the demands of the law of value.

Experience in socialist construction shows that in socialist economic activity, be it the improvement of microeconomic results or the improvement of macroeconomic results, we must recognize the commodity nature of socialist economy and respect the role of the law of value.

So-called microeconomic results refer chiefly to the results of socialist enterprises economic activities. The key to improved enterprises economic results lies in changing the state in which enterprises under the old system are only "beads on the abacus" in the hands of higher administrative organs, subject to "manipulation this way and that" by higher-level administrative organs. We must turn these enterprises into relatively independent operating leading bodies with great vitality that combine great internal drive to improve economic results with great external pressure from market competition. All this can be realized only by treating enterprises as relatively independent commodity producers and operators and creating an appropriate environment enabling the law of value to produce a regulatory effect on production and exchange, and by lifting the blockade between areas and trades, thus breaking monopoly and encouraging competition.

To recognize the attributes of commodity economy in socialist economy, we must not only recognize collectively owned enterprises as independent commodity producers and operators, but recognize the enterprises owned by the whole people as also relatively independent commodity producers and operators. They should also be economic entities practicing independent accounting and operating on their own accounts with independent economic power in regard to personnel, financial, material handling, production, supply, sales and other matters. Enterprises should be enabled to break away from the role of being subordinate to administrative organs, so that they can independently make decisions on production and exchange in line with social needs and become independent operating economic entities that combine responsibility, power, and profits under the guidance of plans.

By recognizing the attributes of commodity economy in socialist economy and thus recognizing the role of enterprises as relatively independent commodity producers and operators, we can solve the problem of enterprises sharing equally in the state's "big rice pot," thus enabling enterprise economic results to be linked with workers' material interests and solving the problem of workers sharing equally in the enterprise's "big rice pot." This enables workers to be involved with enterprise operations and management out of concern for their own material benefits. Thus enterprises will have the internal drive to develop production and improve operations and management.

Recognition of the attributes of commodity economy in socialist economy suggests the necessity of socialist competition. Competition is a law peculiar to commodity economy. In competition, enterprises strive to acquire market information and find out what sells, so that their products can meet social needs. On the other hand, "the social labor required for the production of these products must be regarded as the law of nature with its regulating effect" or the law of value. This then calls for "forcibly paving one's own path." (Marx: "Das Kapital," Vol 1, and "Collected Works of Marx and Engels," Vol 23, p 92) This forces each enterprise to use every means to improve management and operations, lower costs, improve technology, develop new products and enable their own individual labor consumption to fall under required social labor consumption as much as possible. Thus, under the guidance of socialist state plans, certain market competition develops to form a kind of external pressure on enterprises, stimulating ceaseless efforts on the part of various enterprises, departments, and areas to get ahead.

Recognizing enterprises as relatively independent commodity producers and operators and respecting the role of the laws of value also helps stimulate each enterprise to better produce to meet social needs and aids the establishment of direct links between production and needs. Thus, under the guidance of plans, enterprises can strive to base themselves on the supply and demand market situation in concretely determinating the volume of those products to be produced, so that their various products can suit the market and meet social needs. This provides the very basis for improving macroeconomic results.

Third, recognition of the attributes of commodity economy in socialist planned economy helps to greatly improve our national planning work, strengthen the state's planned guidance for the entire national economy, and achieve still greater macroeconomic results. This problem can be viewed from two angles:

The first angle is that in socialist economic activities, we must give play to the dominating role of "value as a deciding factor" (in Marx's words). Distribution of social labor in various sectors in a planned and proportionate manner, is a basic prerequisite for improving national economic planning work and improving macroeconomic results. Our historical experience in economic development tells us that every time there have been major proportionate imbalances in the national economy, the macroeconomic results of our national economy dropped considerably. For example, during the period of the "great leap forward" and the period of the "Great Cultural Revolution," such was the case. To insure the proportionate development of the socialist economy and improve macroeconomic results, we must take not only the law of planned development of the national economy but also the law of value as a basis for formulating national economic plans and link the two together. This is because the law of planned development calls for planned distribution of funds, materials, and labor in a proportionate manner, and the commodity "law of value determines how much of all the labor time at its disposal society can use to produce a particular commodity" ("Collected Works of Marx and Engels," Vol 23, p 394). From this it can be seen that the two do not oppose and exclude each other but share a common basis and can be united. Given the law of planning requiring people to consciously arrange social production in a proportionate manner, the law of value, apart from calling for people's rational distribution of social labor, also requires the realization of the proportionate development of social production through economic mechanism. For example, those producers of products in short supply should be rewarded with more benefits and those producers of products in full or excessive supply should be rewarded with less. Thus, enterprises are guided to consciously regulate their own production to meet social needs. Only by properly linking the law of planned development and the law of value can we bring about the planned and proportionate development of the national economy, thus basically guaranteeing a continuous improvement in macroeconomic results.

The second angle is that in the past, our national economic plans failed to grasp major aspects and to effectively regulate the activities of about 1 million enterprises in the entire national economy. An important factor behind this was sole reliance on administrative orders and mandatory targets to control all of them. The system of mandatory targets inevitably leaves many "voids." Within such a scope, enterprises with independent economic interests will make their own choices or decisions based on their own interests. Because planning organs established along the lines of concentrated administration are also not good at using regulatory means suitable for commodity economy (chiefly pricing, tax collection, interest, wages, bonus payments, and so forth) to regulate the relations between enterprises and between enterprises and society and to control enterprise production and management matters within the scope imposed by plans and guide them onto the path suited for social needs, the result is that major aspects are not taken care of, with incompatibility between supply and demand and a frequent proportionate imbalance.

Minor aspects, on the other hand, are rigidly controlled, so that the whole economy shows lack of vitality.

Given planned commodity economy, the state possesses great economic strength and supreme decisionmaking power. In exercising planned leadership over the whole national economy, it is entirely capable of using not only legislative and executive means but also various economic levers to establish a powerful regulatory system combining administrative and economic means to regulate the various economic activities of the entire national economy and to realize the vigorous and planned development of the national economy.

To this end, our planning organs must effect a major switchover ideologically and smash the hackneyed concept that only an economy regulated by mandatory plans is planned economy. This is to say that apart from using mandatory plans we must be good at using guiding plans and gradually switch over from the former to the latter. This should be the main content of future planning work. As far as certain mandatory targets are concerned we must also follow such a plan. Only in this way can we insure their realization. The prerequisite for achieving all this also calls for recognizing socialism as planned commodity economy.

Fourth, recognition of the attributes of commodity economy in socialist economy provides a theoretical basis for our realizing the guideline of opening up to the world. Meanwhile, it is also an ideal prerequisite for guaranteeing our socialist enterprises' being able to realize this guideline and engage in international competition.

Whether a society or a state should develop economic and technical exchanges with foreign countries and make use of foreign markets and foreign capital, resources, and technology--this is determined by the degree of development of its commodity economy and the state of productivity. Given a low level of productivity in the time before capitalism, commodity economy was quite underdeveloped with natural economy occupying a predominant position. Given such a situation, international economic and technical exchanges were often very limited. In capitalist society, commodity economy develops greatly. This naturally brings with it the great development of international economic and technical exchanges. Touching on the economic origins of the bourgeois exploration of the world market in the "Manifesto of the Communist Party," Marx and Engels pointed out: "The need to continuously increase the sales of products sends the bourgeoisie running to all parts of the world." ("Selected Works of Marx and Engels," Vol. 1, p. 234) The aim or nature of a socialist state's effort in developing commodity economy and opening up a world market is fundamentally different from that of the capitalist state effort. But the development of socialist commodity economy will naturally eliminate the isolated and inaccessible nature of national economy as the basis of natural economy. It calls for reaching out to the world to introduce advanced technology and management methods from developed states and draw on foreign capital. It also calls for breaking into the world market and consciously exploiting the world market to get the advantage therefrom of the international division of labor or exchange of international commodities. This historical trend is required for the development of objective things. For such a developing socialist state as ours, this is a matter of particular importance. Our guideline of opening up to the world is formulated on the basis of Marxist theory and the objective demands of

the development of our socialist commodity economy. From this it can be seen that recognition of the attributes of commodity economy in our socialist economy will naturally call for practicing the guideline of opening up to the world and using various suitable patterns to strengthen economic and technical exchanges with foreign countries and stimulate the development of our modernization effort.

We must note that the correct guideline of opening up to the world cannot be easily achieved. 1) To build a base for opening up to the world and to open up cities and special economic zones, we must put in large amounts of capital and, first of all, construction funds for fundamental facilities involving "construction in seven respects and site leveling." 2) We must have an investment environment and supply and sales conditions that attract foreign capital. 3) Our enterprises must have the capacity for digesting and absorbing foreign capital and foreign technology. 4) The products produced by our enterprises with capital and technology introduced from foreign countries must have competitive power on the international market. Under the old management system with concentrated administration, enterprises were cut off in their links with the international market. Their costs were high, their efficiency poor, and their capacity for capital accumulation very weak. Besides, technical progress and the pace of upgrading were very slow. Meanwhile, administrative organs overlapped, with people passing the buck in doing things. Efficiency was very low. Many problems existed in matters of signing and enforcing contracts. All these stand in the way of the realization of the policy of opening up to the world and affect its results. Therefore, we must effect a fundamental reform of such a ponderous, rigid, and lackluster system. All this, just as pointed out above, is based on the prerequisite recognition of socialist economy as planned commodity economy.

In sum, to recognize socialist economy as planned commodity economy and respect the role of the law of value in the state's macroeconomic policy decisions and in enterprise microeconomic activities--will not only stimulate enterprises to vie with each other in improving economic results but also insure the proportionate and harmonious development of the national economy and make us avoid capitalist economic crises and anarchy. Thus, our economic work is enabled to more thoroughly get rid of various "leftist" influences and insure the more vigorous development of our socialist national economy.

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## NATIONAL POLICY AND ISSUES

### JINGJI YANJIU ON HISTORY OF BUILDING ECONOMY

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[Article by Li Chengrui [2621 2052 3843]: "Building a Socialist Economy With Chinese Characteristics--The Great Achievements and Certain Experiences of Economic Construction in the 35 Years Since the Founding of the Country"]

[Text] It is now 35 years since the founding of the PRC. Since that time, under the leadership of the CPC, all the various nationalities of China have carried out a united struggle and the socialist revolution and socialist construction have seen great achievements. Currently, the people of the whole country are concentrating their energies on carrying out socialist modernization, and working diligently to attain the formidable goal for the end of this century put forward at the 12th National CPC Congress. Economic construction is the core of socialist construction. Over the past 35 years, what achievements have we made in building a socialist economy with Chinese characteristics? What sort of winding path have we trodden? What basic lessons should we draw from our experiences? As we celebrate China's 35th birthday, it is fitting to discuss these questions. A detailed discussion would be a massive task. In this article, I can only discuss certain basic situations and certain of my own personal thoughts and experiences to provide food for discussion.

#### I

First, we will discuss the great achievements China has made in socialist economic construction over the past 35 years.

For over 100 years, every patriotic Chinese has looked forward to changing our country from a poor, ancient civilization to a rich, strong, modern country. Countless worthy people have shed blood and died for this purpose. However, in the old, semicolonial semifeudal China, modernization was always an unattainable illusion, which was not and could not be attained. Only with the founding of the PRC in 1949, when a dictatorship of the people was established did the people for the first time take their fate into their own hands, and only then did it become possible to organize their own economic development in a planned way, and stride toward the goal of modernization.

When we began to go in for economic construction, we were faced with an awful mess of a million and one problems left over from the old China. There was very little modern industry, and most of what there was light industry; there was hardly a heavy industrial base. Agricultural output was extremely low, and many people starved every time there was a natural disaster. At the time, with the exception of the old liberated areas, the whole society was in a state of economic stagnation, with spiralling inflation and a people constantly on the brink of starvation. This, then, was the starting point for the economic construction of the new China.

Over the past 35 years, in order to change this state of poverty and backwardness, we have carried out a massive, arduous, and glorious task in the sphere of economic construction, and have made the following three achievements:

First, the establishment and consolidation of socialist relations of production.

The transformation of the old relations of production and the liberation of the forces of production is the prerequisite for economic development. Following the liberation of the whole country, the people's government immediately abolished all the privileges of imperialists in China; confiscated bureaucratic capital, transforming it into socialist state-run enterprise; carried out land reform in the newly-liberated countryside, giving the landless or small-landowning peasants 70 million mu of land and other means of production, and abolishing the land rents, which had amounted to an annual 35 million tons of grain which the peasants had had to hand over to the landlords, so that at last the peasants became the masters of the land. All of this forcefully promoted the recovery of the national economy. From 1953, the socialist transformation of the system of private ownership of the means of production was carried out in a planned way. Our party pioneered the road to a socialist transformation with Chinese characteristics. By 1956, the vast majority of China's regions had basically achieved the socialist transformation of the system of private ownership of the means of production. Of course, there were shortcomings in this work, and many problems went unsolved for a long time. But all in all, the relatively smooth achievement of such a complex, difficult, and profound social transformation in a vast country of hundreds of millions of people, and the promotion of the whole of the national economy, was indeed a great and historic victory.

Following the 3d Plenary Session of the 11th CPC Central Committee, the experiences of history were summed up, the mistaken influence of "leftism" in production relations corrected, attention paid to solving problems left over from the socialist transformation of the 1950's, and further improvements made in the socialist system of ownership in the light of the new situation and new experiences. In the countryside, with the prerequisite of maintaining the collective ownership system by the laboring masses, the economic responsibility system was introduced, linking unified with dispersed management, and private plots, household sideline industries, collective sideline industries, and market trading were restored, all of

which greatly mobilized the initiative for production of the broad masses of peasants. In the towns, we are at present carrying out a reform of the economic system centered on reforming the widespread problem of "all eating from the same big pot," and readjusting the relationship between the state, the enterprise and the individual, in which we have made initial achievements.

Looking at the structure of China's ownership system, of the total industrial output in 1983, 77 percent was produced by whole-people-owned enterprises, 22 percent by collectively-owned enterprises, 0.1 percent by individually-owned businesses, and 0.9 percent by other types of economic entities (including those cooperating with foreign businesses and joint enterprises). Of the total turnover of retail social commodities, whole-people-owned commerce was responsible for 72.1 percent, collectively-owned commerce for 16.6 percent, and individual commerce and market trade (retail turnover from peasants to non-agricultural residents) for 11.2 percent. In the rural collective economy, 94.5 percent of peasants used the economic form of contracting to the household, while other economic forms accounted for 5.5 percent. The socialist system of public ownership, then, accounts for the vast majority of China's national economy. The establishment and consolidation of this ownership system provided the basis for the development of China's social forces of production.

Second, the development of social forces of production.

Over the last 35 years, China has carried out planned economic construction on a massive scale. From 1950 to 1983, investment in fixed assets of whole-people-owned units amounted to a total of 1,163,300,000,000 yuan, while a total of over 3,800 large and medium-sized projects were built and put into operation, along with hundreds of thousands of small projects; newly-increased fixed assets from capital construction amounted to 644 billion yuan, 27 times the total fixed assets of state-run enterprises in the early days of liberation; this provided a relatively strong material and technological basis for the enhancement of the forces of production, the improvement of production development, and the improvement of the people's lives. In 1983, China's total social output value amounted to 1,105,200,000,000 yuan, 9.7 times more than in 1952 when the national economy had completed its recovery, and representing an average annual increase rate of 8 percent; the national income was 467.3 billion yuan, 5.4 times greater than in 1952, and representing an average annual increase of 6.2 percent. This speed of growth was not only something never achieved in the old China, but unusual in the whole world. Look at the following figures showing the state of development of the various economic sectors:

Industry--gross industrial output value in 1982, 608.8 billion yuan, 22.4 times greater than in 1952, showing an average annual increase of 10.1 percent. Of this, light industry grew 15.5 times, an average annual increase of 9.5 percent; heavy industry grew 34.7 times, an average annual increase of 12.2 percent. The production of some major industrial products is now the highest in the world. In 1983, China's cotton yarn, cotton cloth, bicycles, and sewing machine production ranked highest in the world,

The transport, post, and telecommunications industry--from 1952 to 1983, usable railway track increased from 22,900 kilometers to 51,600 kilometers, an increase of nearly 30,000 kilometers. Roads open to traffic increased from 126,700 kilometers to 915,000 kilometers, an increase of 6.2 times. Many railroads are now double-tracked and use electrified trains. Old China had no oil or gas pipelines, but by the end of 1983 there were 10,900 kilometers of such pipelines. Great developments have been seen in civil airways, inland waterway transport, and ocean shipping. The transport network over the whole country is gradually becoming more rational. Post and telecommunications have also experienced massive growth.

Domestic commerce and foreign trade--from 1952 to 1983, social product retail turnover increased 9.3 times, reaching 284.9 billion yuan. Of this, consumer products retail turnover increased 8.2 times, while retail turnover of agricultural production means increased 29 times. Market prices were basically stabilized. From 1951 to 1983, the retail price index rose 55.6 percent, an annual average increase of 1.35 percent. Over the last few years, some products, in particular vegetables, fruit, and aquatic products, have seen relatively large price increases, but due to the stable price of fixed supply products such as grain, edible oils, and so on, and the fact that industrial commodity prices have fluctuated, the retail price index showed an overall annual increase of only 2.7 percent between 1979 and 1983. Foreign trade has experienced relatively speedy growth. By 1983, China had established trade relations with over 170 of the world's countries and regions, and gross import-export trade figures rose from \$1.13 billion in 1950 to \$40.7 billion in 1983, an increase of 35 times. Of export commodities, primary products dropped from 83.4 percent of total exports in 1952 to 43.3 percent in 1983; and industrial finished products rose from 16.6 percent to 56.7 percent. Since the 3d Plenary Session of the 11th CPC Central Committee, China has utilized a total of \$14.6 billion of foreign funds, and authorized a total of 188 joint investment enterprises.

As the national economy has grown, there have been great developments in education, science, culture, health, and sports, and massive achievements have been made in family planning. Over the past 30 or so years, colleges of higher education over the whole country have produced a total of 4.11 million university graduates. At the same time, 7.22 million graduates from mid-level colleges and 2.42 million technicians have been trained. The child school-entering rate has risen from 20 percent as it was in old China to 90 percent. Over the last 35 years, China's science and technology has become able to solve its own problems. The successful research and development of the "Milky Way" 100-bit mainframe computer, the launching and recovery of a manmade earth satellite, the launching of a carrier rocket from underwater, and successful test launching of communications satellites points, are symbols of the way in which China is developing its science and technology by relying on its own strength, and progressing to new levels. China has also made marked achievements in its development of films, television, the theatre, literature, the arts and publishing. The total number of hospital beds in 1983 was 2.11 million, a 12-fold increase over 1952, of which 58.8 percent were directly for rural use.

raw coal, chemical fertilizers, and sulphuric acid production ranked third in the world, steel production was the fourth highest in the world, electricity was sixth, and crude oil was seventh. China has now changed from a country importing "foreign oil" to an oil-exporting nation. We have now established and developed the car manufacturing industry, airplane manufacturing industry, petrochemicals, atomic energy, space, computers, modern metallurgical equipment manufacturing, mining equipment manufacture, lathe manufacturing, and defense industries, none of which existed in the old China. The distribution of industrial regions in China has also seen some improvement.

Agriculture--we have developed large-scale agricultural irrigation and water conservation projects. The 300 million mu of effectively irrigated land in 1952 had expanded by 1983 to 670 million mu. Initial control has been gained over flooding from the great rivers, the Changjiang, Huanghe, Huaihe, Haihe, Zhujiang, Liaohe, and Songhuahe. The countryside of the old China had almost no agricultural machinery, chemical fertilizers, or electricity, but by 1983 it possessed agricultural machinery with a total capacity of 245,030,000 horsepower, 841,000 large and medium-sized tractors, 2.75 million mechanical donkeys, irrigation machinery amounting to 78.49 million horsepower, and 27,500 heavy goods vehicles. Mechanized fields account for 34.1 percent of all cultivated land, and mechanically irrigated areas account for 56.6 percent of all effectively irrigated land. In 1983, a total of 16.6 million tons of chemical fertilizers was used, 43.52 billion kwh of electricity, and over 7 million tons of firewood. From 1952 to 1983, gross agricultural output value increased 2.36 times, reaching 312.1 billion yuan. Grain output rose from 163.92 million tons to 387.28 million tons, an increase of 1.36 times; cotton output rose from 1,304,000 tons to 4,637,000 tons, an increase of 2.56 times; pork, beef, and mutton output rose from 3,385,000 tons to 14,021,000 tons, an increase of 3.14 times; annual afforestation area increased from 10.85 million cubic hectares to 63.24 million cubic hectares, an increase of 4.83 times. The increase rate of grain, cotton, meat, and other necessities of life far exceeded the 78 percent growth rate in the population.

The construction industry--with the development of large-scale capital construction, China's construction industry has also grown. From 1952 to 1983, gross output value in the construction industry increased 14.67 times, reaching 103.4 billion yuan; net output value increased 7.65 times, reaching 23.4 billion yuan. Urban construction personnel reached 7.99 million people, while rural construction personnel reached 4.83 million people. Many heavy, technically complex construction projects hitherto impossible to undertake, such as the iron and steel enterprises which produce an annual 3 million tons, large-scale coal mines with an output of 4 to 5 million tons of coal, and large-scale coal washing plants processing an annual 3 million tons of coal, along with highly difficult construction projects like the Gezhouba Dam Hydropower Station which spans the Changjiang, and the Great Changjiang Bridge at Nanjing, can now be designed and carried out independently in China.

The incidence of and death rate from infectious and parasitic diseases which used to seriously damage the people's health before liberation, have dropped dramatically. Our population mortality rate has dropped from 25-33 per thousand as it was in the old China to 7.1 per thousand. The average life expectancy of China's population has risen from 35 as it was in old China to 67.88 years (66.43 for males and 69.35 for females), meaning that it has nearly doubled. (Footnote 1) (According to computer-processed statistics on the 1981 life-expectancy rate from the 1982 population census) In the 35 years since the founding of the country, life expectancy has increased at about 1 year per year, a rare achievement in the world. Since the beginning of the 1970's, China has made marked achievements in its family planning work. The population birthrate has dropped from 33.43 per thousand in 1970 to 18.62 per thousand in 1983, and during the same period the natural population growth rate dropped from 25.83 per thousand to 11.5 per thousand.

Third, the raising of the material and cultural living standards of the broad masses of the people.

On the basis of production growth, the average consumption levels of China's population has risen from 76 yuan in 1952 to 288 yuan in 1983, an increase of 2.8 times; after deductions for the inflation factor, there has been a real increase of 1.5 times, or an average yearly increase of 3 percent. Of this, the average annual increase during the first 26 years (1952-1978) was 2.2 percent, while that of the last 5 years (1979-1983) has been 3.5 percent. The people's daily calorie intake has risen from 2,270 kilocalories in 1952 to 2,877 kilocalories in 1983, while protein levels have risen from 69.6 grams to 82.8 grams, and fat from 28.3 grams to 47.2 grams. At the same time, the living conditions of the people have seen some improvement. Over the last 30 or so years, the state has allocated land for a total of 927 million square meters of housing for staff and workers, of which 395 million square meters was built in the last 5 years. Urban residents have an average per-capita living space of 5.9 square meters, compared to 4.2 square meters in 1978. Over the last 5 years, peasants have built a total of 2.8 billion square meters of housing, and by 1983 each peasant had an average housing space of 11.6 square meters.

After the broad masses of people solved the problems of heating and clothing, the trend for "taking care of nutrition in food, fashion in clothes, and high-quality household items" has been developing, with changes occurring in the consumption mix. In 1983, there were, per 100 households, 61 bicycles, 38 sewing machines, 91 watches, 57 radios, and 4 television sets. For urban workers and staff, these figures per 100 households are 160 bicycles, 76 sewing machines, 268 watches, 29 washing machines, 105 radios, 83 television sets, and 27 cassette players.

In brief, after 35 years of economic construction, we have basically changed the desperately poor face of semifeudal, semicolonial old China and built in its place an independent, relatively well-rounded industrial and national economic system, and a socialist state beginning to prosper. Though new China has not been long in existence, and its achievements are

still in the initial stages, while the Chinese people's living standards are still relatively low, and in comparison with the economically advanced countries of the world, China's economic level is still relatively backward; even though, due to lack of experience in construction, we have made certain mistakes, hindering our country from making the achievements it ought to have made, nevertheless the achievements already made over the past 35 years are unprecedented in the country's history, and are universally recognized.

On the subject of China's achievements in its economic construction, many world figures have given relatively objective evaluations. The World Bank's survey group published a survey report in March 1982 entitled "China: The Development of a Socialist Economy," in which it stated: "Over the past 30 years, China's hard work toward economic growth has been centered on two basic goals. First, industrialization, in particular the establishment of a heavy industrial base; second, the elimination of all the worst aspects of poverty and hardship." "Because individual income from private property does not exist, we do not see in China, as in other developing countries, the coexistence of extremes of poverty and prosperity. Though the average consumption level has risen quite slowly, the most marked achievement of the last 30 years has been precisely to make its low-income population much better off than in the vast majority of other poor countries in terms of basic needs. They all have work to do, their food is assured, the majority of children get relatively good schooling, and the majority of people enjoy basic health care and family planning services. The average life expectancy now in China--and the fact that it is decided by so many social change factors may possibly make it the best possible symbol of the extent of actual poverty in a nation--is 64 years (China's official statistics for 1979 were 68). For a country with an average per capital income the level of China's this is quite outstanding."

One thing particularly worth pointing out is that over the last 5 years, just as the capitalist world has been suffering an economic crisis, and recovery has been very slow, China's economy, under the guidance of the correct line of the 3d Plenary Session of the 11th CPC Central Committee, has been bounding toward prosperity. There has been much international comment on this. West German Chancellor Schmidt, when discussing the future state of the world's economy, said: "China has been the only big country in the world not to suffer the attack of the various crises. It has neither suffered from an economic crisis, nor the East-West crisis." (Footnote 2) (See RENMIN RIBAO 1 Dec 83) The UN World Food Council has taken China as "a model" to show to other developing nations. And when China repaid its debts ahead of schedule in 1983 it received praise from the IMF.

The facts of the last 35 years, especially the last 5 years, prove that with the superior socialist system and the correct leadership of the party, we can definitely catch up and eventually take over the capitalist nations. We are full of faith in China's socialist modernization. Just as Comrade Deng Xiaoping pointed out: "Socialist China does not yet compare with the advanced capitalist countries in terms of its economy, technology, or culture; this is a fact. But this is not something created by the

socialist system itself: Basically speaking, it has been created by preliberation history, by imperialism, and feudalism. The socialist revolution has already greatly decreased the gap between China's economic development and that of the developed capitalist countries. Though we have in the past made some mistakes, we have still done in 30 years what old China failed to complete in hundreds or thousands of years. Without a doubt, once mistakes are corrected, we will grow faster than any capitalist country, and do so in a more stable and more protracted way." (Footnote 3) (Deng Xiaoping: "Uphold the Four Basic Principles" "Selected Works of Deng Xiaoping" p 153)

## II

Below, we will take a look back at the winding course of development China's socialist economy has taken over the past 35 years.

To carry out socialist economic construction in a large, highly-populated Eastern country which has just come out of semicolonialism and semi-feudalism, is a special, complex historical task. Marx expounded on the building of communist society--including its primary stage, socialism--in terms of general principles. Lenin and Stalin led the cause of socialist construction in the backward capitalist nation of Russia. But the question of how to apply the general principles of Marxism-Leninism to the realities of China, and to build a socialist economy with Chinese characteristics, was something only the Chinese people themselves could solve. Due to the fact that the practice of socialist construction in the world did not have a long history, though the laws of socialist social development were already relatively clear, there were more laws which had yet to be explored; and due to the fact that we had little experience of socialism, and there were gaps in our knowledge and analysis of China's situation, we made certain mistakes and detours on our road of advance. But through these mistakes and setbacks, we were able gradually to deepen our knowledge of China, and were able gradually to step onto the road to victory.

The economic construction over the last 35 years may be divided roughly into the following periods:

1. The period of national economic recovery and the first 5-year plan (1950-1957).

During this period, we only had experience of economic work in the revolutionary base areas, and no experience of nationwide large-scale economic construction. Problems were dealt with cautiously, and diligent examination of the situation carried out. At the 2d Plenary Session of the 7th CPC Central Committee convened on the eve of the nationwide liberation, Comrade Mao Zedong pointed out that "from the point of view of the whole country, the ratio between industry and agriculture in China's national economy before the anti-Japanese war was about 10 percent for modernized industry and around 90 percent for agriculture and handicraft labor. This is the consequence of China's exploitation by the imperialist and feudal systems, the manifestation of the economic essence of old China's semi-colonial, semifeudal society, and the basic starting point of all the

problems we have encountered during the Chinese revolutionary period and that we will encounter for a relatively long period following the victory of that revolution." (Footnote 4) (Mao Zedong: "Report to the 2d Plenary Session of the 7th CPC Central Committee," "Selected Works of Mao Zedong" Vol 4, 1966 People's Publishing House horizontal-lined edition, p 1,320) At the time, this basic analysis of China's situation was in line with objective reality. The period of economic recovery and the first 5-year plan following the nationwide liberation consisted of economic work guided on the basis of this basic analysis of the state of the nation. After 3 years of hard work, the national economy, which had been subject to the serious ravages of 12 years of war, had already recovered, and by the end of 1952 China's industrial and agricultural production had reached the highest levels in history. Following on from that, the CPC Central Committee put forward a general line for a period transition, and on that basis drew up the first 5-year plan. In practice, the majority of the targets set in the "first 5-year plan" were attained ahead of schedule. The gross industrial and agricultural output value rose at an annual average rate of 10.9 percent, while the national income rose 8.9 percent; the ratios between the various sectors were relatively well adjusted, and economic efficiency was relatively high, while the lives of the people saw marked improvements. Important achievements were also made in socialist transformation during this period. But in the last stage of this period, the socialist transformation showed problems of overtight demand, shoddy work, overrapid changes, and overmonolithic forms; economic construction began to tend toward lack of realism and rashness.

## 2. The "Great Leap Forward" Period (1958-1960)

In the face of the above initial achievements, arrogance, complacency, and overhastiness grew steadily, and the basic fact was overlooked that China was still a highly-populated, economically backward country. Many successful experiences of the "first 5-year plan" were forgotten, and the effect of subjective hard work was exaggerated. In developmental goals, a "great leap forward" speed was pursued, instead of active but stable development. On the issue of ratios, the slogan "take steel as the key link" was raised, and the need for proportional development and overall balance neglected. In the relations of production, people's communes were ordered without any preliminary investigation or real experimentation, and the slogan "big and communal" pursued blindly. Private plots and market trade were abolished, along with piecework and bonuses, negating the principle of "to each according to his work." The result of all this was that the national economy became seriously unbalanced, economic development suffered a massive decline after its initial boost, and economic efficiency dropped sharply. These mistakes, along with some objective factors, brought serious losses to the party and people.

## 3. The period of readjustment of the national economy (1961-1965).

Our mistakes and difficulties sobered us up. In the winter of 1960 the CPC Central Committee decided on a policy of readjustment, consolidation, enrichment, and improvement. On the basis of this policy, we were to

continue to readjust the ratios of the national economy, primarily restoring agricultural production; readjust production relations, carrying out "three levels of ownership based on the production brigade" in people's communes, and overcoming the "communist wind" and egalitarianism; and greatly reduce accumulation, guaranteeing the basic livelihood of the people. Measures adopted in line with this policy were as follows: reducing investment in capital construction; increasing revenue and economizing on expenditures, in an effort to balance finances and credits; controlling inflation, and stabilizing market prices; cutting down on staff and workers, and reducing the urban population; strengthening the first line of agriculture, and rectifying and readjusting enterprises, shutting down some factories and mines, and so on. These policies and measures began to work swiftly. From 1963 to 1965, gross agricultural output rose at an average annual rate of 11.1 percent, while gross industrial output value rose annually at 17.9 percent, and the national income at 14.7 percent. Of course, this high rate had a lot to do with the fact that China was recovering from a trough, but it can be seen that recovery and development were carried out smoothly. Economic efficiency rose markedly, and many quotas reached record levels. The national income increased, and life saw some improvement. By late 1964, the task of readjusting the economy was basically complete, and the national economy had made a complete turn for the better. However, generally speaking, the economic policies of this period were forced by the situation, and the "leftist" mistakes of the previous period had by no means been genuinely realized in terms of ideology; therefore, as soon as the situation changed for the better, it was difficult to avoid making the same mistakes all over again.

#### 4. The decade of internal chaos (1966-1976).

In 1966, we entered the period of the third 5-year plan. It was originally envisaged that the basic tasks for the "third 5-year plan" would be the following: to make great efforts to develop agriculture, and basically solve the people's food, clothing, and other daily needs; to appropriately strengthen national defense, and work hard to grasp sophisticated technology; to strengthen basic industry, and develop communications, commerce, education, and science. However, the "cultural revolution" began in 1966, and the above tasks became impossible to carry out. Nationwide political chaos seriously attacked our economic construction, and economic policies and plans were thrown into chaos. Looking at the facts, this period was a continuation of the "left" mistakes of the Great Leap Forward. Its concrete manifestations were: one-sided stress laid on increasing output value in development targets, with no consideration given to economic efficiency; continuing stress on "taking steel as the key link" in terms of ratios, and a one-sided stress on heavy industry; in production relations, the pursuit of the policy of "transition through poverty," and "cutting off capitalist tails; in the people's lives, wages were frozen, so-called bourgeois rights were condemned, and egalitarianism practiced; and in the field of foreign relations, the so-called "foreign slave philosophy" and "toadyism" were condemned, and an isolationist policy pursued. During this decade, production order was seriously damaged.

Even though there was resistance and hard work on the part of the broad masses of cadres and people, enabling the national economy to limp along, and experience some growth from time to time, nevertheless great losses were suffered. For several years, there was negative growth in production; and in some years, economic growth occurred only by inappropriately tapping funds accumulated before the "cultural revolution," along with plundering of energy and other natural resources, and keeping living standards artificially low; all of this created many "debts" in production and life. During this period, the ratios of the national economy also went right out of proportion again; economic efficiency dropped considerably, and the people were subject to great difficulties in their lives.

#### 5. The new period of historical development (Since October 1976).

The successful smashing of the Jiang Qing counterrevolutionary clique in October 1976 brought China into a new period of historical development. During the first 2 years of this period, industrial and agricultural production recovered relatively swiftly. However, "leftist" guiding thinking was not condemned, and certain mistakes were made in economic construction, such as overhasty expansion, and so on, exacerbating the already existing imbalance and dislocation in the national economy.

The 3d Plenary Session of the 11th CPC Central Committee, convened in December 1978, reestablished the Marxist line, and represented a most deeply significant and massive historical turning point in the history of the party. The plenary session decisively put a stop to the use of the slogan "take class struggle as the key link," which was unsuited to socialist society, and put forward the strategic policy of shifting the emphasis of all party and national work onto socialist modernization, thereby creating the premise necessary for the smooth implementation of socialist economic construction. The plenary session also put forward the principle of paying attention to overcoming the massive imbalances in the national economy, and drew up decisions on speeding up agricultural growth; in addition, it put forward the policy of carrying out rectification, renewal, upgrading, and reform of the national economy, and demanded that mistaken "leftist" tendencies, which had existed for a long time, be corrected and diligently eliminated. The 12th National CPC Congress put forward the formidable goal for economic development to be reached by the end of this century, along with a whole series of principles and policies. The implementation of the decisions made at the 3d Plenary Session of the 11th CPC Central Committee and the 12th National CPC Congress have achieved massive results. Through readjustment, from 1978 to 1983 the ratio between accumulation and consumption was readjusted from 36.5:63.5 to 30.0:70.0; while the ratio between agriculture, light industry and heavy industry was readjusted from 27.8:31.1:41.1 to 33.9:32.1:34.0. This then corrected the long-existing phenomenon of overaccumulation, and overemphasis on heavy industry. During the 5 years concerned, the average annual growth rate for agriculture was 7.9 percent, for light industry the figure was 11.2 percent, and for heavy industry the figure was 5.1 percent. In the same 5 years, reform of the economic system was carried out in an active but stable fashion. In the countryside, the household contract responsibility system was introduced to great effect, with harvests increasing

every year. The urban reform has already seen initial results, and is going ahead smoothly. The open door policy has got off to a good start. The long-existing problem of "all eating from the same big pot" and the influence of isolationism are in the process of being solved and eliminated. On the basis of developing production, the party and state have adopted a whole series of measures to improve the people's lives. Rough estimates show that the annual average net per capita income among peasants has risen from 134 yuan in 1978 to 310 yuan in 1983, a yearly increase of 18.3 percent. Staff and worker households have an average per capita income available for use on living expenses of 526 yuan, up from 316 yuan in 1978, and when price fluctuation factors are taken into account, this means an annual average increase of 7.4 percent. This has changed the long-existing situation in which fairly rapid production growth did not improve the people's lives significantly. Since early 1984, the national economy has been in a gratifying situation of relatively speedy growth, relatively rational proportions, and high economic efficiency.

Looking back over the last 35 years of economic development, it is my opinion that we may divide the period into two broad stages separated by the 3d Plenary Session of the 11th CPC Central Committee: the first lasting 29 years and the latter 6 years. During the first 29 years, encompassing the first through the fourth period mentioned above, we lacked knowledge of the laws of China's socialist economic construction, and even when we gained some correct understanding on occasions, it was often not consolidated or acted on, so that we suffered setbacks and reverses, and, as well as making great achievements, we suffered serious losses. Our achievements were the main thing, but we also learned some profound lessons. During the second stage, we summed up the positive and negative lessons of the previous 20 years and more, deepened our understanding of the laws of China's socialist economic construction, and gradually established a correct road to socialist modernization suited to China's conditions. Of course, this road will have to undergo constant improvement and development in practice in the future. In China's socialist economic construction there still exist many "kingdoms of necessity" which we must come to understand, but since the 3d Plenary Session of the 11th CPC Central Committee we have consolidated, recovered, and established the ideological line of seeking truth from facts, have managed to combine the universal truth of Marxism-Leninism with the concrete practice of China, and have upheld the principle that practice is the sole criterion of truth; so though some shortcomings and mistakes have appeared, they are relatively easy to correct. This will bring about the constantly successful progress of our socialist economy.

### III

Lastly, we will discuss the basic experience of China's socialist economic construction over the last 35 years.

Comrade Deng Xiaoping pointed out that "our modernization must go ahead on the basis of China's actual conditions. In both revolution and construction, attention must be paid to studying and learning from foreign experiences.

However, copying exactly another country's experience or model has never been successful. We have been taught many lessons on this point in the past. Linking the universal truth of Marxism with China's real conditions, and taking our own road to building a socialism with Chinese characteristics, represents the basic conclusion produced from summing up our long historical experience." (Footnote 5) (Deng Xiaoping: "Opening Speech to the 12th National CPC Congress," "Selected Works of Deng Xiaoping" pp 371-372)

The basic experience of the last 35 years of economic construction has taught us of the necessity to start with China's actual conditions, and on that basis build a socialist economy with Chinese characteristics.

For a considerable time in the past, there existed a mistaken "leftist" guiding ideology in our economic construction. One basic reason for the occurrence of "leftist" ideology lay in the fact that we ignored China's real conditions, and divorced ourselves from China's reality. For example, we blindly pursued high speed in our construction goals, with no regard to financial, material, or human viability; in production relations, we blindly pursued the goal of "both big and communal," ignoring the existing levels of China's forces of production. This "leftist" thinking still has influence even today. Summing up historical experience and stressing the need to start with China's actual conditions is primarily in order to get rid of this mistaken "leftist" ideology which is divorced from China's real conditions. Of course, we must also prevent other forms of thinking which also divorce themselves from China's reality.

In order to start from China's real conditions, we must conduct profound and systematic research into China's situation. We must investigate China's history and present state, and study factors such as population, natural resources, and geography, along with economic, political, and cultural factors, and all the advantages and disadvantages of various other factors. For example, China has a large population and rich manpower resources (in terms of quantity), but this puts a big burden on society. In particular, it is no easy task to carry out modernization in a country in which 800 million of its 1 billion people live in the countryside; China has a vast territory, with rich natural resources, but we have not yet carried out sufficient prospecting, exploitation or use, and many natural resources do not come to much per capita (this is particularly the case with cultivable land); China has already established a socialist system, which shows great vitality, but many specific systems within it are not yet perfect, and the merits of the socialist system have not yet been fully exploited; China's economic and cultural construction has already reached a considerable scale and formed a substantial basis, but our level of economic growth is still relatively low, and our cultural and scientific and technological levels still relatively backward; a large country such as ours can concentrate forces to do things which smaller countries are unable to do, but there is a huge difference between the various regions, with many administrative levels, which makes for complexity not experienced in smaller countries; China's international situation is relatively beneficial, and it can draw on foreign experience and utilize foreign funds and technology, but the danger of war has by no means disappeared, and the corruption of capitalist thinking from abroad cannot be overlooked;

the Chinese people have always had the fine tradition of living thriftily and putting up with hardship, and struggling for their country, but at the same time the influence of capitalist thinking left over from the semicolonial, semifeudal period has yet to be completely eliminated; and so on. When drawing up the principles, policies and measures for economic construction, it is necessary to carefully consider all aspects of China's situation.

The building of a socialist economy with Chinese characteristics requires the solution of certain problems. Which problems? They cover an extremely wide area, and in this article it is impossible to discuss them all. I shall raise the following few issues only:

First, we must have construction goals suited to our country's condition. Only with appropriate struggle goals can we form a correct strategy and tactics. Since the founding of the country, our goals for construction have gone through several changes. The overall line put forward in the early 1950's for the period of transition was relatively realistic. Later, from 1958 with the call to "surpass Britain and catch up with the United States in 15 years," to 1978, when it was decided to carry out the four modernizations by the end of this century, and the call, leading on from this, to "build ten Daqings" and "ten Anshan Iron and Steel Companies" in a few years, all of these were unrealistic from the point of view of China's realities, they all demanded excessive speed, and lacked a program for the protracted struggle. Under the guidance of such thinking, we often took the road of high speed--high accumulation--low economic efficiency--low consumption. Of course, the sort of pessimism and inertia which fails to see the superiority of the socialist system and underestimates the various potentials within it is also incorrect.

Following the 3d Plenary Session of the 11th CPC Central Committee, Comrade Deng Xiaoping started with a deep analysis of China's conditions, and on this basis put forward a program for two long strategic stages in China's modernization plan, and two levels of strategic goals. He pointed out: "Over the next 20 years, we must develop China's modernization to a stage where everyone has a comfortable standard of living, and then continue to progress, gradually attaining a high degree of modernization."

(Footnote 6) (Deng Xiaoping: "Thoroughly Readjust Principles, and Assure Stability and Unity" in "Selected Works of Deng Xiaoping" p 315) At the same time, he put forward the specific goals for reaching a comfortable standard of living. This strategic thinking scientifically solves the question of the goal for China's socialist economic construction.

The 12th National CPC Congress, on the basis of the above thinking of Deng Xiaoping, put forward the first stage of the strategy, that is, from 1980 to the end of the century, to quadruple the gross agricultural and industrial output value. This goal involves raising economic efficiency as the premise, and quadrupling as the standard, and controlling population growth as the condition, and raising the standard of living of the people as the aim; it is also connected with aspects such as increasing national strength and defense power, and developing science and technology. The

12th National CPC Congress put forward the strategy for the first decade (1980's) and the second decade (1990's). All of this has inspired the fighting will of the people for the four modernizations, and encouraged them to actively but stably progress toward them.

The strategic goal put forward at the 12th National CPC Congress is nationwide and comprehensive, and must be made more specific by each region and department. Lately, the various regions and departments and even many enterprises have all actively researched into and drawn up their own strategic goals. This is a good thing. But there is one issue which must be taken care of, which is that to say that the whole nation must quadruple output does not by any means imply that each region, department and enterprise must quadruple output. It is good that everyone is ardent in their desire to contribute to the modernization, but if every single region, department, and unit quadruples output, the sectors cannot be made proportionate, or regional deployment or enterprise mix made more rational, neither can overall balance be achieved. Another question is that the formulation of regional and departmental goals requires a thorough understanding of the 12th CPC Congress documents, the rich content of that congress' report, and in particular of the thinking that economic efficiency must be put first. We must definitely unite speed, proportion and economic results. Here, economic efficiency plays a key role, and we must absolutely not restore the situation of sacrificing economic efficiency for output and speed, blindly expanding construction scales. Here, it is necessary for nationwide, comprehensive departments to give even better guidance to regions, departments, and enterprises, and to listen to the opinions of those regions, departments, and enterprises. There should be links between top and bottom, such that the specific goals of the economic construction may be in line with reality.

Second, we must have ratios and economic mix suited to China's conditions. During some period in the past, our national economic ratios developed fairly rationally, but due to the influence of "leftist" thinking, the vicious cycle of "turn for the better--rash advance--loss of proportion--readjustment" repeatedly appeared, bringing great losses to the national economy. Practice has proved that "taking steel as the key link," "long-term balance," and "leaving gaps" are mistaken theories. Of course, insisting on absolute balance with no regard for speed or other considerations is also unrealistic, and does not help economic development. Since the 3d Plenary Session of the 11th CPC Central Committee, the major ratios which were seriously irrational have been readjusted; while the 12th National CPC Congress put forward the task of emphasizing the solution of the agricultural problem, the energy resources and communications problems, and the science and education problems. This thinking which, stresses grasping key points and promoting balance, reflects the demands of objective laws. Of course, in order to carry out in a specific way the correct principles of the 12th National CPC Congress, much work has still to be done. This requires profound research into the ratios between accumulation and consumption, the rational calculation of the ratios between agriculture, light industry, and heavy industry, and, related to this, all the other secondary ratios, including the ratio between accumulation used to increase fixed assets and that for liquid assets within accumulation, the ratio of capital construction invested in production construction

to nonproduction construction, the proportion of national financial income within the whole of the national income, and the overall balance between finance, credit, goods and materials, and foreign currency. At the same time, a realistic and rational approach must be taken to the production mix in the national economy, including industry, agriculture, the construction industry, transport and communication, commercial services and the internal mix of all of these sectors, the structure of the various service sectors, the national economy's technological structure, enterprise scale structure, and regional deployment, urban arrangement, and so on.

Third, we must have relations of production suited to the state of China's forces of production and helpful to their development. Since the founding of the country, we have built up and consolidated a socialist public ownership economy, and carried out a planned economy and distribution according to work, all of which is correct: but under the influence of "leftist" thinking, production relations to a certain extent became divorced from the real state of China's forces of production. The 12th National CPC Congress summed up historical experience, and established the correct principles of developing a mixed economy with the state-run economy as the main part. In May 1984, in the "government work report" delivered to the Second Session of the Sixth NPC by Comrade Zhao Ziyang, the important policy of grasping the reform of the economic system was put forward; at the same time as continuing to grasp the rural reform, steps were to be taken to strengthen the urban reform, and starting with the solving of the relationship between state, enterprise and worker, the various reform measures suited to the present state of China to be built up and proceed together. This economic system reform has similarly important and profound significance to the socialist transformation of the 1950's. At present, all areas of the country have gone into action, and are actively carrying out the reform. In order to do it properly, we must definitely liberate our thinking, start with the real situation in China, and thoroughly eliminate the influence of previous "leftist" thinking. System reform is an exceptionally complex issue, and must be carried out through a combination of exploration and progress, by "feeling our way across the river." We must remember the mistakes and shortcomings which occurred during the socialist transformation of the 1950's, so as to avoid the reoccurrence of too much emphasis on speed, lack of care in our work, overhasty changes, and too much uniformity. We must reform our enterprises into lively, strong concerns, and promote the great development of the social forces of production.

Fourth, we must have foreign economic policies suited to China's international situation. Experience since the founding of the country has proved that we must, on the basis of self-reliance, actively expand foreign economic and technological exchange. On the basis of the principles of the 12th National CPC Congress, Comrade Zhao Ziyang said at the Second Session of the Sixth NPC that we must grasp the reform of the system and the open door policy as two great tasks in our economic work from now on, and actively develop the special economic zones, further develop the coastal cities, and work hard to create a new situation in foreign economic and technological exchange. In order to understand how to carry

out these principles, we must sum up experience, gain in understanding of the situation, and constantly progress in-depth.

Our experience of economic construction since the founding of the country has been extremely rich. In a certain sense, we have gained two great things from our 35 years of economic construction: one has been material gain, that is, the concrete achievements of the construction; and the other has been a spiritual, ideological gain, that is, our valuable experience. These two things are important, indispensable bases for our future progress. We must pay attention to these material gains, but even more attention to spiritual gains. The CPC Central Committee has now summed up, on a Marxist basis, all of these experiences. Of course, these conclusions constitute principles, and much work on the part of theoretical and practical workers will have to be done to produce concrete conclusions from our experience. Even better summing up and publicization of the experience of the last 35 years, and the constant examination of new situations and problems represents a glorious task.

The building of a socialist economy with Chinese characteristics, and the modernization of a country of a billion people, is a massive, wonderful and arduous task. We must, through the cycle of practice, understanding, more practice, more understanding, and constantly deepen our knowledge of China's situation and of the laws of socialist economic construction. We fully believe that under the leadership of the CPC, we will definitely be able to overcome any problem encountered on our road of advance, and step by step achieve the great goal of China's socialist modernization.

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## PROVINCIAL AFFAIRS

### ANHUI BOOSTS INDUSTRIAL, AGRICULTURAL PRODUCTION

OW110007 Beijing XINHUA Domestic Service in Chinese 0607 GMT 6 Dec 84

[By reporter Tian Xuexiang]

[Excerpts] Hefei, 3 Dec (XINHUA)—Despite the problem of natural disasters in agriculture and the shortage of energy supply in industry, the gross annual value of industrial and agricultural production in Anhui Province this year is over 30 billion yuan, thus prefulfilling the present target by 1 year. Both the total grain output and the average per-capital income in rural areas have exceeded the targeted figures of 40 billion jin and 300 yuan respectively. Because of these achievements, the province has won praise from leading comrades at the central level.

According to data provided by the Anhui Provincial Statistical Bureau, the province's economic situation this year is the best since 1979. In agriculture 21 counties were hit by natural disasters last year. This year, although natural disasters hit again afflicting 30 million mu of cropland, the province still reaped a bumper harvest with total grain output estimated at 42.1 billion jin. The gross value of agricultural production is estimated at 14 billion yuan, up by 10 percent compared with last year. The gross value of industrial production this year is expected to reach 10 billion yuan, a 12.4 percent increase over last year. Financial revenue is expected to surpass last year's figure by more than 12 percent. In rural areas, the average per-capital income is estimated at about 350 yuan.

The initial success in reforming the economic structure has brought new vitality to Anhui's economy. The province's industrial output value for the first 11 months of this year amounted to 16.4 billion yuan, up by 14.2 percent compared with last year's corresponding period and surpassing the average for the entire country. From January to October, profits rose by 21.1 percent, tax paid and profit turned over to the state increased by 17.1 percent, and sales proceeds went up by 13.6 percent compared with the corresponding period last year. The number of village and town enterprises in the province has grown to some 260,000 an increase of more than four times over last year. These enterprises employ 2.14 million people, or 12.5 percent of the rural labor force in the province. By the end of November, the province had by and large fulfilled its annual financial revenue budget. The average growth rate

of financial revenue was faster than the growth rate of the total value of industrial and agricultural production.

Through the practical work of reform, leaders at all levels and the broad masses in Anhui Province have perceived the great potential to develop the province's economy and have increased their confidence in quadrupling their gross annual industrial and agricultural production by the end of this century. The provincial CPC committee and government are determined to implement a more flexible policy, put emphasis on developing the economy of poor areas, and make a success of the reform of the urban economic structure so as to win still greater victories in 1985.

CNSG. 4006/176

## PROVINCIAL AFFAIRS

### FUZHOU'S LU HONG INSPECTS RURAL ENTERPRISES

05111206 Fuzhou Fujian Provincial Service in Mandarin 1130 CST 16 Dec 84

[Text] During a recent inspection of commune- and brigade-run enterprises in Longhai and Jinjiang Counties, Lu Hong, permanent secretary of the provincial party committee, encouraged peasant managers and plant directors to go all out in running the enterprises in order to contribute more to activating the rural economy.

At (Wanxin) Ceramic Industry Company in (Shangshan) Township in Longhai County, Comrade Lu Hong, asked about the development of the company. Peasant manager Chen Li, who had just returned from a tour in Hong Kong, told Comrade Lu Hong, "The company has already signed order contracts worth some 200,000 yuan in less than 2 months since its establishment. It has also helped some provinces and counties train a number of managerial and technical personnel. It is expected to fulfill 400,000 yuan output value by the end of this year and exceed 1 million yuan output value next year. The company would like to know whether or not the policy will change."

Comrade Lu Hong replied in clearcut terms: "The policy will not change. Even if it does change, it will be more flexible and beneficial for the prosperity of the peasants and the development of township and village enterprises. You can rest assured and go all out in doing your job."

In (Wanxin) Township in Jinjiang County, Comrade Lu Hong visited a pottery factory, founded by peasant Wu Jingshi and familiarized himself with the development of the county's townships and villages and their enterprises.

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## PROVINCIAL AFFAIRS

### LIANGNING: TWO FUND ATTENDS SCIENCE FEDERATION CONGRESS

(Xinhua) Shenyang, Liaoning Provincial Service in Mandarin 1970 (XJ 12 197 14)

[Xinhua] The second congress of the Liaoning Provincial Federation of Philosophy and Social Sciences opened in Shenyang on 12 December. This is another important meeting of workers in the field of social science since the establishment of the federation 20 years ago. More than 450 representatives attended the congress. Attending the opening ceremony were Guo Gang, Huang Zhen, Li Xuhuan, Zhang Wu, Liu Donglan, Liu Yiyun, Zhu Chuan, Zhao Shi, Liu Jie, Zhao Junchen, Zhang Yan, Gu Guangji, Hu Longxiang, and Yue Weichun. Li Tuo, Li, secretary of the provincial CPC Committee, sent a congratulatory letter to the congress. Representatives of the Chinese Academy of Social Sciences, the Philosophy and Social Sciences Federations in Beijing, Inner Mongolia, Jilin, Heilongjiang, Nei Monggol, and Shanxi attended the congress to congratulate or send congratulatory messages and letters to the workers. Sun Weibao, secretary of the provincial CPC Congress, delivered a congratulatory report to the congress entitled "Vigorously Develop Social Science and Promote the Building of Liaoning's Four Modernization Drive."

[Xinhua] In his report, Li Tuo said: The practice of our province's modernization drive has revealed that for the workers in the field of philosophy and social sciences, the vast number of workers in the field of philosophy and social sciences are required to further expound on and appraise the necessity of the reform. Therefore, workers should, in theory the major ideological questions, carry out the struggle and the masses in carrying out reforms, research and exploration, and cases emerging in reforms, sum up experiences, draw lessons, and systematize and theorize these experiences. The CPC report has called for all workers in the field of philosophy and social sciences to courageously shoulder the heavy burdens of the times, and will promote the economic structure reform and the province's modernization drive.

The second responsible person of the provincial federation of Philosophy and Social Sciences made an opening speech. (Zhang Jiteng) made a report on behalf of the committee of the provincial federation of Philosophy and Social Sciences.

(Xinhua) 1970 (12)

## PROVINCIAL AFFAIRS

### GUANGZHOU TO NEARLY DOUBLE AREA OF CITY PROPER

HK041040 Beijing, ZHONGGUO XINWEN SHE In Chinese 0835 GMT 3 Dec 84

[Report: "Guangzhou Has Decided to Expand the City Proper"]

[Text] Guangzhou, 3 Dec (ZHONGGUO XINWEN SHE)--Guangzhou City has decided to expand the city proper, and the area will be expanded from the present 54 square kilometers to 92 square kilometers. In addition, Tianhe District and Fangcun District will be established, and population growth will be strictly controlled. This will satisfy the needs of implementing an open-door policy and carrying out economic construction. This proposal has been examined and approved by the 10th session of the 8th Provincial People's Congress Standing Committee.

At present Guangzhou city proper is composed of the four districts of Donghsan, Yuexiu, Liwan and Haizhu, with a total population of 1.94 million. The city proper of Guangzhou, which covers a total area of 54.3 square kilometers, is the smallest among various big cities throughout the country. Its population density in the city proper of Guangzhou is second only to Shanghai. The average population per square kilometer is 35,700. This is not in accord with the development of economic construction. Therefore, expanding the city proper, reducing its population, and easing the crowded living space has become a task of top priority.

After expansion, the city proper will be extended to Dapingwei in Shilong, Wufeng Township, Datang Village, and Shiliugang in the south; Guangyuan, Jingtakeng and Xikeng Village along Guangyuan Road in the north; Baihuo and the southern water route of the Zhu Jiang in the west; and Chigangmen and Guangzhou Road in the east. The total area of the city proper will be expanded to 92.7 square kilometers.

In addition, Tianshui District will be established, covering the Zhu Jiang in the south; Dongjifeng, the Guangzhou livestock farm, Chebovong, and Hailu in the north; Guangzhou Road and Guangcong Road in the west (including Tianhe and the Tianhe zone); and the Huangpu area in the east. The total area of this district will be 102.5 square kilometers. Fangcun District will cover the Foshan water route in the south; the bank of the Zhu Jiang in the north; Yanbu Town and Lochun in the west; and the southern land of the Zhu Jiang in the east. The total area of this district will be 40.8 square kilometers.

After expansion, the population of the city proper will be limited within 2 million by the end of this century. Some of the population and some enterprises as well as establishments in the city proper will be moved in a planned way to the outskirts, the outer suburbs, and to economic and technical development areas which are to be established soon. Units and residents in the outskirts and outer suburbs will be strictly restricted from moving into the city proper.

CSO: 4006/142

## PROVINCIAL AFFAIRS

### GANSU CONGRESS OF INDIVIDUAL WORKERS OPENS 3 DEC

HK041309 Lanzhou Gansu Provincial Service in Mandarin 1100 GMT 3 Dec 84

[Excerpts] The first Gansu Provincial congress of individual workers opened in Lanzhou this morning and is being attended by 172 delegates, of whom 42 are state cadres who engage in work of the individual economy or who work in departments concerned and 130 are the representatives of individual households.

[Duan Kaisheng], responsible comrade of the preparatory group of the provincial association of individual workers, gave a work report at the congress. He reported the situation in the development of individual industry and commerce and in the preparatory work for the provincial association of individual workers. He said: Since the 3d Plenary Session of the 11th CPC Central Committee, industry and commerce in which individuals engage have been resumed and have developed relatively quickly. By the end of September this year, the whole province had 111,538 individual industrial and commercial households which comprised some 160,000 people. The number of these households exceeded the number of individual commercial households in 1953 which was then the largest after liberation. The volume of business in the first three quarters of this year reached some 290 million yuan. The restoration and development of urban and rural individual industrial and commercial households has played an active part in invigorating the economy, speeding up exchanges of urban and rural materials, promoting production, providing employment opportunities, increasing wealth for society, and serving the masses.

Comrade Liu Bing, Huang Luobin, (Yang Zhilin), and Hou Zongbin, attended today's opening ceremony. Leading comrades of the provincial federation of trade unions, the provincial women's federation, the Gansu Provincial CYL Committee, and the provincial federation of industry and commerce attended the congress and delivered speeches of greeting.

CS0: 4006/142

## PROVINCIAL AFFAIRS

### BRIEFS

JILIN HANDLES ECONOMIC CASES—So far, Jilin Province has concluded 86 percent of the economic criminal cases. A total of 16.67 million yuan worth of stolen money and goods have been returned. [Summary] [Changchun Jilin Provincial Service in Mandarin 1030 GMT 6 Dec 84 SK]

SHANGHAI'S GONGREN BAO REDESIGNATED--A tea party was held on 11 December to mark the occasion of redesignating the Shanghai GONGREN BAO [WORKERS' NEWS] as LAODONG BAO [LABOR NEWS]. Hu Lijiao, second secretary of the Municipal CPC Committee, attended the party and spoke. [Summary] [Shanghai City Service in Mandarin 2300 GMT 11 Dec 84 OW]

CSO: 4006/169

## ECONOMIC DEVELOPMENT ZONES

### GUANGZHOU SEEKS FOREIGN CAPITAL FOR PROJECTS

Guangzhou YANGCHENG WANBAO in Chinese 27 Aug 84 p 1

[Article: "Guangzhou Will Announce 191 Import Projects"]

[Text] A spokesman for the Guangzhou foreign economic and trade commission revealed to a reporter of this paper that, at the Guangzhou commodities marketing exhibition and the economic and technical cooperation discussion meeting soon to be held in Hong Kong, Guangzhou will announce 191 foreign economic and technical cooperation projects to be developed in the near future for selection by foreign firms interested in investing in Guangzhou.

Among the 191 projects, 47 belong to the Huangpu economic and technical development zone. Most of the 145 industrial projects involve equipment renovation and the development of new science and technology and new materials and products. The larger projects include the following: The Guangzhou Yuanhua Microcomputer Corporation plans to import production equipment, with an annual output capacity of 8,000 to 10,000 sets of personal microcomputers, and 10,000 sets of computer software in 10% categories. The Guangzhou No 3 Steel Rolling Mill plans to import production equipment with an annual output capacity of 25,000 to 30,000 tons of color-coated steel plates. Tourism and urban development projects include the Lianhuashan and Nankunshan tourist spots, the Eastern Disneyland and the development of Guangzhou City's Haizhu Square and Tianhe District. In response to foreign firms interested in investment and cooperation, the Guangzhou municipal government will, in line with the relevant provisions of the central government, grant them even more favorable preferential treatment in import and export custom duties, industrial and commercial taxes and income taxes, and in opening up to them part of the domestic market.

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CSO: 4006/3-A

## AGGREGATE ECONOMIC DATA

### BRIEFS

SHANDONG METALLURGICAL INDUSTRY--As of 2 December, the metallurgical industrial enterprises in Shandong Province prefulfilled the annual steel, pig iron, rolled steel, and iron ore production plans. The output of steel, pig iron, and rolled steel increased by 10.15 percent, 4.14 percent, and 9.95 percent, respectively, over the corresponding period of 1983. [Excerpt] [Jinan Shandong Provincial Service in Mandarin 2300 GMT 3 Dec 84 SK]

CSO: 4006/169

JINGJI YANJIU ON PRICE REFORM DIRECTION, MODELS

HK041249 Beijing JINGJI YANJIU in Chinese No 10, 20 Oct 84 pp 13-20

[Article by Lou Jiwei [2869 4949 0251], a student at the Research Student Institute of the Chinese Academy of Social Sciences, and Zhou Xiaochuan [0719 1420 1557], a doctoral research student at Qinghua University: "Discussing the Direction of Our Nation's Price System Reform and Its Models"--written in September 1984]

[Text] The Serious Impediment to the Development of the National Economy Posed by the Present Price System

Pricing affects the national economy in many ways through channels such as allocation and profit guidance and consumption effectiveness. Virtually all major obstacles faced by our national economy at present are closely related to the irrational price structure. Here, we would like to make a rough analysis of the following several problems.

1. The production capability structure and the product mix are obviously imbalanced and some products, usually in short supply, are now in extremely short supply. This prevents overall national strength from being brought into play. At the same time, many departments have not fully utilized their productive capability. If there is a rational industrial structure, when the scale of production and construction reaches the limits of national capability, the productive capacity of most of the departments will also be strained. Seen from our nation's economy, for many years the scale of the economy has been restricted by the shortage of a small number of primary products. For a long period, this has been difficult to overcome (in the text below, "short supply restricting national strength" refers to this irregular structural problem where a small number of products in short supply cause excessive restrictions). In a sealed economy where planning is entirely of a mandatory nature, the lack of sufficient import-export regulatory capacity and supply-demand regulatory capacity, makes it necessary to utilize the principle of equilibrium for products in short supply. At such times the extent to which national strengths are brought into play may be relatively poor. In an open economy, import-export capacity should be fully utilized to supplement those products which are in short supply domestically, thereby raising overall national income. But, if the domestic price of primary products which are in short supply is too low, the imported supplement will have

to be heavily subsidized. If this amount cannot be calculated in the overall accounts, then it will be difficult to fully bring into play the regulatory role. We can see that these products in short supply which restrict the national economy are often those which have obviously low prices, as is the case of energy resources, communications, and the three raw materials over the last few years. In one respect, they have been the bottlenecks in the national economy. In another respect, because their prices were too low, the production departments did not bring full capacity into play and user departments wasted great amounts and gave no thought to substitute materials. Under present conditions, the results of applying mandatory planning to various aspects of supply and demand, in order to increase production or to economize, have not been too great. It can be said that the phenomenon of short supply restricting national strength, which has been formed under these conditions, is a false image. If the price of products in short supply is raised, then through the supply elasticity of pricing (the supply side will increase production), demand elasticity of pricing (the user side will practice economy), and substitution elasticity of pricing (the user side will try to use substitutes), in the microeconomy there will be a spontaneous effect. Also through the role of investment and profit guidance, the future productive capacity for products in short supply will be raised. In this way, it is possible to increase the supply of those products at present in short supply. National strength can further be brought into play and national income will inevitably be increased. Of course these measures can bring with them many negative effects and so various supportive policies should be used.

The conflict in supply and demand created by products being in short supply is an important objective basis on which, in the society, the prices of various commodities in short supply and means of production in short supply are raised. In our nation's present conditions, on the one hand it is necessary to strengthen price management to prevent illegal raising of prices and the resultant difficulties. On the other hand, we must persist in the planned readjustment of prices so that at an early stage we can get rid of the phenomenon where contradictions in the product mix seriously restrict national strength. When three or four types of goods or materials are concurrently in short supply, some comrades are unduly worried and believe that it is necessary to reduce the economic scale. This is precisely because we have not mastered and not even started to utilize the powerful economic levers. Since we lack more effective methods, we have to make a relatively painful choice. We can see from international economic comparisons that the situation in our nation's economy of products in short supply having a restricting effect, is very prominent. However, there exist several possible avenues for appropriately resolving this problem.

2. The disproportion between the prices of primary products and those of manufactured products has caused macroeconomic interests to deviate from microeconomic interests. This has resulted in the local investment structure being seriously warped and, for a long period, it has not been possible to improve the supply of such products or the infrastructure. In our nation, the prices for agricultural products, energy, the three raw materials, communications and telecommunications have for a long period been divorced from the relationship of equilibrium between supply and

accounts as calculated by the enterprises in regard to imported and exported products, are obviously not in accord with the accounts as calculated by the state. This has resulted in a scramble to export those products which should not be exported and import those which should not be imported, and central finances have had to provide a huge foreign trade subsidy. Actually, this is a manifestation of low economic results. Seventh, because the supply and demand relationship has not been fully taken into consideration, we have been unable to implement a policy of higher prices for excellent quality. For this reason, for a long period, there has existed the phenomenon of restricting the advanced and protecting the backward. In general then, the losses which have occurred in economic results as a consequence of the irrational pricing system have been huge.

#### The Curative Effect of Different Pricing System Reform Programs on the Existing Maladies

Something which is being spoken of quite often now is the production pricing system. This price-fixing idea uses the average production cost of products and adds the average profit on social funds [she hui ping jun zi jin li run 4357 2585 1627 0971 6327 6855 0448 3387] to determine the product price. In form, it is very like Marx's production price theory, but on close analysis, it can be seen that the price-forming conditions are completely different. The essential difference is that the subject which determines the price form is different. In Marx, the subject is society, but according to the production price-fixing method, the subject is the planners. This difference between the two can give rise to basic differences in economic activities.

Marx's production pricing theory can be understood as: In a completely competitive market, supply and demand determines price fluctuations, while prices control the flow of essential elements in production and proceed to control changes in the production structure. Production pricing is thus the general result of supply-demand equilibrium and price competition. Because the primary product demand elasticity is quite low, the supply elasticity is restricted by natural resources and is often insufficient. Under these conditions, and as a result of equilibrium in the supply of and demand for raw material and products, pricing can reach an equilibrium at the cost level of the extractors of low-grade raw materials. In the process of achieving price equilibrium, there will also be a balancing of supply of, and demand for material goods, a rational deployment of funds, rational changes in the consumption structure and production structure, the development of new technology, the raising of product quality and other active economic readjustment processes.

Prices fixed in accordance with the production price price-fixing method being put forward now, will lose or basically will not bring into play these active readjustment processes which are described in Marxist works as "socially rational." Using average departmental costs and the rate of average profit on funds as a base is obviously beneficial to raising the utilization rate of funds and reducing blind investment. But, at the same time, it is necessary to realize that this recognizes the rationality of

the various existing structures. Prices set in this way cannot guarantee supply-demand equilibrium, and it is not possible for their economic results to be too good. In practice, low-grade material cost is not a precise concept, and actually these should be determined on the cost at which supply-demand equilibrium is achieved. Thus, it is virtually impossible to artificially determine what low-grade material costs are.

As the present production price price-fixing theory and Marx's production price theory have such great differences in substance and in their function, we should treat them in different ways. In the analysis below, the production pricing methods mentioned are all connected with the present production price price-fixing method.

The production pricing system can make income distribution more rational and resolve the phenomenon of unfairness. At the same time, it does not fluctuate with production cycles or investment cycles. Seen from a static viewpoint, neither is there a danger of continued inflation. However, this system is not beneficial to overcoming the phenomenon where short supply restricts the scale of the economy. It cannot ensure rational distribution of raw materials or effectively promote the growth of national income. As the profit rate from investment in any direction will be the same, it will result in investment being "without a trend." This is a little better than blind and duplicated investment but it will not promote a rational investment direction or rational structural changes. Seen from a long-term point of view, neither can it support the implementation of a development strategy. In the same way, the production pricing system will be of no assistance to bringing about rational changes to the consumption structure.

Western equilibrium price refers to that price at which, under ample market mechanism conditions and relying on market forces, the amount of supply is equal to the amount of demand. Under ample market mechanism conditions, the main problems with equilibrium pricing are as follows: First, supply and demand equilibrium pricing is of particular assistance in guiding short-term equilibrium in production and consumption. Under the guidance of correct macroeconomic policies, it helps in fully bringing into play latent national strength. But, long-term structural changes are conditioned by long-term consumption patterns and are not necessarily the same as short-term structural changes. Second, short-term supply-demand equilibrium prices can easily be affected by production cycle fluctuations. This is because with pricing feedback information and production regulation, there is regulatory seasonal sluggishness [tiao jie shi zhi 6148 4634 2514 3333] brought about by the investment cycle, the life cycle, and the circulating fund turnover cycle. This regulatory seasonal sluggishness often causes supply to be unable to keep abreast of changes in demand, giving rise to the so-called cobweb phenomena periodic fluctuations. When several products compete for the same raw materials, it can happen that several cobweb phenomena interweave. This situation has already appeared widely in our nation's commodity product markets, especially in the agricultural and sideline product markets. Third, in the situation where overall demand control is not effective, in fixing prices it will be necessary to

handle firmly the question of currency inflation. Fourth, if we wish to adopt supply-demand pricing, ample mobility for important elements in production should be permitted. The producer's income will not be even and at the same time irrational income distribution will occur.

In our country where there is no absolute competition, prices balanced by natural forces on the market may be disorderly and inconsistent. In the macroeconomy, they do not reflect the supply and demand equilibrium for individual products, and there is the chance that undesirable aspects of supply-demand pricing may be exacerbated. However, under theoretical non-monopolistic conditions and seen from the expected value of the supply-demand pricing system (this can be understood simply as the median value of price fluctuations calculated on the principle of supply-demand equilibrium), this system of pricing is advantageous to the national distribution of natural resources. It is also beneficial to overcoming the immediate phenomena of materials in short supply restricting the scale of the economy. Thus, in the short-term, it can cause national income to be increased. In terms of the present and short-term situation, it is beneficial to the rationalization of the investment structure and to strengthening infrastructure such as energy, communications, and so on. It is also useful in strengthening investment in the many major developmental projects. But we must realize that supply-demand prices fluctuate and can give rise to various types of periodicity. There are no necessary guarantees to prevent currency inflation, and if there are no classified product tax rates or subsidy policies, it is not possible to guarantee the rational distribution of income. In order to retain the various good points of supply-demand pricing in regard to the national economy, and to avoid the effects of the laissez-faire freedom of non-ideal markets, we propose supply-demand equilibrium guided prices. That is, under our nation's present conditions and by macroeconomic planning, those theoretical prices obtained through the overall supply-demand equilibrium of various products. These will take into consideration our nation's long-term development strategies, the rationalization of income distribution and the curbing of those factors giving rise to economic fluctuations. They will be established on the basis of the real role of market regulation in the national economy but will also eliminate the distorting effects of some non-ideal markets. Under our nation's present economic conditions, it is difficult to realize an ideal market and, for major products, we must still use planned pricing. In regard to these important products, we should fix planned prices in accordance with supply-demand equilibrium guided prices. In the process of continued improvement of structural readjustment and market regulation, this price-fixing method can act as a necessary transitional measure as various products gradually move toward floating prices.

In our nation's economic life, the decisionmaking power of localities, enterprises, and individuals is being expanded in order to arouse enthusiasm at various levels, and regulation by market mechanism has already become a decisive force. But, in another respect, under the conditions of relaxed price control, various phenomena of illegal raising of prices have occurred. This makes us soberly realize that the market is far from ideal, and that a gradual transition is required. Also, the market urgently

needs the lever of pricing to promote structural readjustment, the raising of economic results and the improvement of investment direction. From a long-term point of view, we need to guarantee continued high-speed development to achieve the social and economic goals for the year 2000. These above all constitute the requirements of and conditions for this price-fixing idea.

The advantages of supply-demand equilibrium guided prices are lacking in other pricing systems. Also it is difficult for other systems to supply what is urgently needed by the national economy. Its disadvantageous aspects can be restricted by various appropriate methods. In balancing the advantages and disadvantages, it is obvious that we should not abandon those extremely important economic interests. It is precisely because of this that we advocate a careful policy analysis to seek appropriate transitional forms and reliable measures, to work hard to achieve maximum gains with minimum losses.

#### The Starting Point in Price Reform

We believe the most outstanding problem in the current planning system is that the prices of some primary products (including communications, and posts and telegraphs, whose position is similar to that of primary products) are too widely divorced from supply-demanding pricing. This results in huge losses for the national economy. If the prices of primary products are gradually readjusted to become more rational, it will also provide a good base for the readjustment of the prices of processed and manufactured goods. At that time we will be able to assemble much valuable information on the consumption coefficients of raw materials used in various types of manufactured goods and the possibility of replacing these raw materials. Conversely, the readjustment of the prices of manufactured products can give rise to changes in the structure of manufactured products and can influence the overall demand for some primary products, but in general this influence is fairly minor.

Our nation's present pricing system is a long way from being a rational one. During the transition to a rational system, we must pay attention to political and economic stability, the control of currency inflation and the rationalization as far as possible of income distribution. These will be very arduous tasks. One countermeasure could be to rely on huge, tight mathematical models and at one stroke calculate price-reform programs. But many difficulties would remain. It is difficult on the theoretical level to gain a consensus by using models. Policy considerations within models are often simplified to the extreme and because the models are greatly divorced from rational systems, the errors brought about by parameters and procedures are quite obvious. Also, large-scale readjustment plans without intermediate feedback information are not easily accepted by policy-makers. If it is only taken as a system for calculating prices and is not tested in practice, it is also difficult to convince people. Another countermeasure could be gradual readjustment in batches and in stages, with the scope of each readjustment not having to be too large. In the readjustment process, mixed models will be used, policy

analysis will be stressed, and efforts will be made to make policies fit together. The advantage of this is that highly predictable and influential product prices will first be readjusted in one step. On the one hand there will be readjustment while on the other, there will be the collecting of data and the amending of coefficients. When many readjustments are being carried out, feedback information will be continually received. In one respect, this will test and verify the model while in another respect it will test and verify pricing reform results and the correctness of overall economic reform thinking. We believe that the latter counter-measure is more reliable. As for the question of arranging the precedence of the prices to be readjusted, we believe that we should start from the major primary products (including basic services, communications, posts and telegraphs, and so on). We will thus be able to resolve the present bottlenecks in the national economy and also make the gradual readjustment of prices easier.

There is one point in doubt and we believe that it must be more fully discussed. After the prices of eight types of non-staple foodstuff products were raised, there occurred illegal raising of prices. Some people have begun to suggest that price reform should have as a condition the formation of a buyer's market. If we proceed from the general demand process and the prevention of currency inflation, this is comprehensible. If it refers to the relationship between price ratios and the structural question (for example, the question of the eight types of non-staple foodstuffs) then price reform should be a prerequisite for forming a buyer's market. If prices do not change, unless there is control over complete, effective mandatory planning authority, it will be difficult to cause scarce commodities (not including scarce commodities resulting from monopolies) to change into a buyer's market. Seen from the experience of socialist countries, when supply-demand relationships become tense to a dangerous degree, prices have to be readjusted. As for those commodities which are priced too low, if their prices are not readjusted, a buyer's market cannot spontaneously come into being. In the same way, price reform and results have this sort of relationship. In one respect, improved results are, in non-inflationary conditions, a condition for price reform. But in another respect, if prices are not reformed, economic results in many fields cannot be basically improved. It can be seen that prices and the market commodity structure are contradictory, and that prices and results are mutual cause and effect. We cannot wait until conditions are good before carrying out readjustment of prices. As for the relationship, under the precondition of there being no effective way to control the general supply of money, between the readjustment of prices to promote economic growth and the pressure of currency inflation, we are afraid that this is a question which requires earnest study and assessment. We must act now in this regard.

#### Proposed Price Reform Plans

On the basis of the above analysis, the price reform plan proposed by this article is one which, under the conditions of combining tax and subsidy policies, taking into full consideration the overcoming of

monetary fluctuations, preventing an excessively high rate of currency inflation, striving for rational income distribution and supporting national economic long-range development policies, causes the price-fixing of major products to be beneficial to bringing about a situation of supply and demand equilibrium. This price system idea tries to ensure that the market mechanism plays its regulatory role better and in more fields. At the same time, it also fully recognizes and guards against the maladies of a free market. Compared to the phenomena of uneven distribution, readjustment brought about by short supply, structural contradictions, and investment problems are more important and more urgent. If we use supply-demand pricing to handle the latter problems, then product tax policies on the basis of supply-demand prices can still be utilized to effectively resolve the contradictions inherent in uneven distribution. If we use the production pricing system and also use taxation, subsidies, and other policies, it will be difficult to effectively resolve short supply, and structural and investment problems. On the problems of pricing, the first thing to strike the eye is the phenomenon of uneven distribution. The problems of raw material distribution and structural, investment, and development strategy problems are seen only indirectly. But this certainly does not mean that the latter problems are less important.

Below, we provide individual explanations of the several preconditions for price-fixing through supply-demand equilibrium guided prices.

1. Pricing policies must be closely integrated and linked with taxation and subsidy policies. More generally, they must be closely integrated with interest rates, exchange rates, tariffs and import and export subsidies. Pricing will be used to promote the rationalization of raw resources distribution as well as the rationalization of structural readjustment and investment direction. Under the condition of prices not being fully rational, classified product tax rates should be used to overcome the phenomena of uneven distribution and encourage advanced technology, thereby bringing about generally rational income distribution. At the same time, we must retain necessary profit rate differentials to encourage investment and structural readjustment of those departments with priority in development. In the process of readjustment and reform, there will still have to be subsidy policies in specific necessary places. As the pricing system gradually becomes more rational, the product tax system must also be continually readjusted.

2. It is necessary to prevent various types of pernicious periodic fluctuations. In a competitive market mechanism, there are no stable, enduring supply-demand prices. They fluctuate with production cycles and investment cycles (there are also other cyclical elements). That is to say, supply-demand prices have the effect of stimulating blind production and blind investment. Individual enterprises rely on market forecasts and there is no way for them to completely overcome this blindness. Even if there were forecasts by a union of all businesses and enterprises, would this be possible, but a union of all businesses and enterprises would destroy competition and produce a monopoly. We advocate that in the production of major products, planned pricing be used. The numerical value

demand. Not only has this been an important factor in restricting the yearly economic scale, but has also produced the phenomenon whereby the direction of local and enterprise investment has seriously violated the national economy's rational industrial structure and development strategies. An important aim of the reform of the economic structure is to attempt to arouse enthusiasm through expanding autonomy. If, because of irrational prices, this enthusiasm is to a considerable degree reflected in blind and duplicated construction in the local areas, then it would be necessary to withdraw some of the autonomy given in order to guarantee the rationality of the proportions and structure of the national economy. Due to the low prices of primary products and infrastructure, they are unable to attract local investment. Only the central authorities take the initiative to arrange such investment. Our nation in regard to the problems of centralization and decentralization has, over the last several decades, fluctuatingly followed a circular path of control leading to rigidity followed by relaxation leading to chaos. This, we are afraid, is very dangerous. Thus, we must make a breakthrough in pricing system theory and practice so as to promote a unanimity in macroeconomic interests and microeconomic interests. This is an important key for the socialist economy.

3. If the consumption structure cannot develop quickly, this will obstruct long-term economic growth. Experience in developing national economic growth has shown that, on the basis of satisfying the most basic needs of subsistence, swift national economic growth has always occurred on the basis of swift change in the production structure and consumption structure. Swift economic growth is symbolized by industrialization. It also requires that the proportion of industrial goods in the consumption structure be speedily increased and the proportion of agricultural goods be speedily decreased. Experience and figures show that when per-capita income reached \$400 to \$500, the proportion of foodstuffs in consumption can fall to below 30 percent. The achievement of this cannot be divorced from the role of pricing. In most socialist countries, the importance of price stability is stressed to different degrees. The actual proportion of foodstuffs in consumption is quite high and, following economic development, the reduction of this proportion is quite slow. This is to say, the impediment posed to national economic development by the speed of agricultural development is quite large. If the conditions for agriculture in a country are not good, then the development of the whole economy will be obstructed. In the consumption structure of our nation's inhabitants (including public consumption), the foodstuffs proportion is very high and its reduction is very slow. Apart from the pricing question, this is also related to the rapid growth in population and the fact that basic requirements are still not yet completely satisfied. Thus the order of priority must be agriculture and light industry followed by heavy industry. On the basis of this trend of development, if there is no price restructuring, when per-capita income reached \$500, the actual proportion of foodstuffs in consumption will be over 45 percent. In general, it is very difficult to maintain a high speed of development for agriculture over a long period of time. Thus economic growth will naturally be subject to the serious impediment of agricultural development. We believe that the influence of the demand structure on economic growth is a subject worthy of great attention, and that pricing is one of the most important levers in bringing about changes to the demand structure.

From the above problems in resource allocation, investment, and consumption structure we can see that changes in the structure are, throughout, accompanied by economic growth. This is especially so in the period when per-capita income is quite low (meaning the period when per-capita income is \$200 to \$1,000). Thus, in our nation's development planning for the next two decades, the task of structural readjustment will not only be a task in the first 10 years but also in the second 10 years. It is just that the many years of deficiency will make the task of structural readjustment appear more prominent in the first 10 years. Thus the use of pricing as an economic lever for structural readjustment should be given long-term consideration.

4. The irrational pricing structure has produced irrational distribution of income which has influenced the enthusiasm of enterprises and the rational distribution of other key elements. This is common knowledge and it is unnecessary to repeat details.

5. Economic results and the pricing system are extremely closely related. Our nation's economic results are quite poor and improvement in economic results quite often fails to reach the planned level. Experience has shown that it is not very effective to rely on mandatory targets in improving economic results. It is necessary to link economic results with micro-economic interests, to cause the enterprises to bring into play their internal motivation. One of the most important levers for achieving this is pricing. At present, the situation where there are many low targets for economic results is very closely related to the irrational pricing system. We only cite a few major aspects of this: First, because prices are too low, there is serious waste of scarce raw materials and products in short supply and little enthusiasm for practicing economy and using substitutes. Second, the fact that some prices are greatly divorced from supply and demand has promoted the situation where supply and demand are disjointed, great amounts of products are overstocked, and much of the circulating funds are taken up. At the same time, as the supply of and demand for raw materials in short supply is disjointed, it is not possible to ensure the needs of all enterprises through the market or through normal ordering of goods. This causes the enterprises to compete in building up their stocks of materials in short supply, which actually results in the distribution of raw materials in short supply becoming more irrational. Thus, these materials are in even shorter supply and circulating funds are further taken up. The present rate of circulating fund utilization in our country is shocking. Third, incorrect pricing signals [jia ge xin hao 0116 2706 0207 5714] have caused great blindness and duplication in the direction of investment by localities and enterprises. After establishment, plants are operated below capacity, and this means a low rate of fixed asset utilization. Fourth, irrational pricing leads to irrational distribution of income and affects the labor productivity rate of some enterprises and individuals. Fifth, because there is no rational regulation of the supply of and demand for products in short supply and because, in fund utilization, there is no rational pricing, it leads to a general lengthening of the capital construction period. Sixth, because pricing is not rational, the profit and loss



increased national income, although the price index may go up a little, the actual incomes (calculated on fixed prices) of the various social strata (including people in urban and rural areas; people of different occupations; old, middle-aged, and young people; coastal and inland inhabitants, and so on) will increase to differing degrees. Nobody or very few people will suffer disadvantages. This type of policy can rescue pricing policy from a dead-end.

4. It is necessary to do our best to guarantee the rationalization of income distribution. This consists of two parts. The first is the rationalization of static income distribution. This refers to the correcting of the phenomena of uneven distribution between different departments and different enterprises which has been created by product prices. The second is the rationalization of dynamic income distribution. That is, in the process of growth in national income, being able to guarantee rational growth, at different rates, in the income of the different strata of society. Every price readjustment plan should use diversified methods of analysis based on population and family divisions to analyze the advantages and disadvantages of income distribution. They should also use supplementary taxation and subsidy policies to compensate for the drawbacks which appear in order to guarantee social and political stability. Population division methods include division into occupational groups, age groups, urban and rural groups, geographical groups, and so on. It is also necessary to pay special attention to statistics on family structure and income analysis. Seen in terms of model analysis techniques, and technical problems of this type of analysis and policy research can already be resolved. Statistical data should also be strengthened. We believe that if we resolve well the problem of income distribution, then the price reform will be able to go ahead. At the same time, if economic growth and structural changes are researched from changes in income distribution, much in the way of beneficial analytical results can be obtained.

5. It is necessary to persist in social and economic development strategy. Social and economic development strategies must often provide special supportive policies for various departments. These include support in industrial development, support in the export industry, encouragement in import replacements, encouragement in labor-intensive industry, service industry development, and so on. This is different to the guidance provided by the supply-demand relationship and by profit guidance. If there was not the support of pricing policies and taxation policies and we depended solely on mandatory planning arrangements, it would be difficult to fully implement these development strategies. Thus, in the implementation of planned prices for important products, not only must the supply-demand relationship be considered, it is also necessary to consider support for development strategies. Of course, some of these functions can be carried out by taxation policies.

In brief, we believe that if we are able to appropriately resolve the problems in the several areas detailed above, and prices for major products can approach supply-demand equilibrium market prices, this will give expression to great superiority.

## The Problem of Pricing Models

No matter what price-fixing ideas are adopted, price determination is always a highly quantitative problem. It generally requires the use of mathematical models to find solutions. The problem lies in knowing which model to use. Different models represent different ideas and their results can be completely different. The models are used in quantitative planning in deciding on pricing, but more importantly and more interesting to the policy-makers is that they can provide policy analysis and result forecasting and resolve the problem of policy coordination. The supply-demand equilibrium guided price fixing model and the policy analysis model are syntheses of many models, including the dynamic planning model (DLP), the input-output model (IOM) and the calculated general equilibrium model (CGE). This group of models has assisted us in putting forward a price-reform plan. It begins planning from the supply-demand relationships of the primary products (including communications and posts and telegraphs) and proposes the utilization of the method of gradual price readjustment. Its stress is not on theoretical supply-demand equilibrium price calculated at one time. (Because data and information could not support it and it would fall far short of an acceptable plan for reform, it would be difficult to implement.) The stress is laid on gradually readjusted policy analysis and auxiliary policy research. In other words, the emphasis is laid on the analysis of the problem of income distribution, development strategy, structural change, and so on, as well as on the exposition of the effectiveness of currency inflation control, and of taxation, wage, and subsidy policies. It offers a basis for comparing plans and also something to go by in making decisions.

There are great differences in the hypothetical conditions and the capacity embodied in the various models, and they have different uses in research on price reform. The use of the DLP model to determine the prices of natural resources roughly reflects the scarcity of the various natural resources, and it has great reference significance in the rational distribution and utilization of natural resources. We can consider using this model as reference in determining primary product prices. The input-output model, after departmental costs and tax and profit rates have been derived, can be used to calculate the interlocking changes of prices. The transformed IOM model can be used as a model for policy analysis. For every price readjustment plan, we can use the CGE model to illustrate the degree of rational utilization of resources, the point of composite equilibrium for maximized national income, and the extent to which development strategies are realized. This will generate a theoretical value for the supply-demand equilibrium prices of important products that can lend support to the above demands and is of a representative nature. With each price readjustment plan, we can also work out departmental tax rates, subsidies, wages (or specific jobs), exchange rates, profit rates and other economic regulator ratios that are part of the price readjustment policy.

The CGE model and the model which is used in the dynamic development and change of the national economy has two parts. The dynamic sub-model, which exceeds a year, describes funds accumulation and sources, the growth of circulating fixed assets, and the process of seasonal changes of the main sub-sectors. The annual static sub-model describes comprehensive equilibrium relationships. This includes reflecting the objective differences which differ at various levels, that is, the different objective functions performed by central authorities, enterprises, and consumers and their interests. It is an economic model which is guided by both market mechanism and is suited to the combination of the market with central planning. It displays the major economic levers of pricing, taxation, credit, interest, tariffs, subsidies and exchange rates used by the central authorities as macroeconomic control variables. With the help of these variables, the total production activities of enterprises, the total consumption activities of individuals, and the course of economic activities can be simulated.

The model can be used in various combinations when fixing prices. First, the CGE model can be used to generate wage rates, tax rates, and profit rates. Then the input-output model can be used to calculate approximate supply and demand prices. It is also possible to use a linearized CGE model to determine approximate supply-demand prices and then to use a nonlinear CGE model to perform income distribution and policy coordination. Or, the CGE model can be used first to estimate rational prices for primary products and then the CGE model can be used with the input-output model to control income distribution and interlocking changes. If prices are fixed in accordance with supply-demand equilibrium guided pricing, the direction of the price changes can be found and it will be possible to offer multi-form model simulation in this regard. These calculations will not be too difficult.

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Concerning the existing pricing systems, the criterion for a good pricing system, on the precondition of a basically rational distribution of national income, it manages national income to be maximized and guarantees the stability of the national currency.

The existing pricing system has given rise to the situation where the government intervenes in the economy, where local investment direction is not rational and where structural evolution is sluggish. This situation obstructs changes in distribution and, more importantly, it obstructs the development of the national economy.

The main reason for the role of the various pricing systems on the development of economic activities and of the surge for the above-mentioned pricing system is that we can only proceed by gradually relying on the supply and demand pricing system. Through recognizing the seriousness, complexity and diversified nature of the problem, we believe that the existing pricing system is a partly readjustment of prices. The first step is to gradually reduce the important contradictions and gradually reduce the price of the important products which have in the past been high prices. The second step is to gradually reduce the rational

distribution of income to maintain political and economic stability. Thus we must utilize mixed models, stress policy analysis, and work hard to achieve policy coordination. After obtaining initial results, it will be necessary to sum up experiences, collect data, lose no time in carrying out readjustment and continue to move closer to supply-demand pricing.

The model techniques required to support the policy analysis in this type of reform are, relatively speaking, a little complicated. However, the current macroeconomic model techniques and systems engineering techniques can supply an appropriate plan. We only need to seriously research and concentrate our efforts to bring this about. There are no insurmountable technical difficulties.

We believe that doing things in this way gradually and steadily will produce good results and the implementation will definitely give a fairly great impetus to our nation's economic development.

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JINGJI YANJIU ON DEVELOPING BACKWARD REGIONS

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[Article by Qian Zhiweng [6929 0037 5040] of the Qinghai Provincial Social Science Institute: "A Discussion of Strategic Guidelines for the Economic Development of Underdeveloped Provinces and Regions"]

[Text] Certain provinces and regions in the north and west of China, due to natural conditions and historical reasons, have always been underdeveloped. After over 30 years of construction following the liberation of the whole country, the economy saw relatively swift development. However, in comparison to the eastern and southern coastal provinces and cities, there is still a wide gap. In the process of achieving the great strategic goal set out at the 12th National CPC Congress and carrying out the socialist modernization, in the question of how correctly to draw up a strategy for the economic development of the underdeveloped regions and provinces, it is my opinion that the following issues should be considered in our guiding thinking.

1. It is Necessary to Draw Up Strategic Goals for Economic Development Appropriate to the Actual Characteristics of the Underdeveloped Provinces

When drawing up a strategy for the economic development of underdeveloped provinces and regions, it is necessary to base ourselves on objective natural and economic laws, and to take full account of the characteristics of those regions, exploiting their advantages and making up for their deficiencies, seeking truth from facts, and to avoid drawing up infeasible plans on the basis of "assumptions." For example, Qinghai is an underdeveloped province, and its primary characteristic is its wealth of natural resources. So far as present surveys show, Qinghai has China's most plentiful deposits of salts, asbestos, lithium, iodine, and other resources--a total of 10 in all--of which it possesses 97 percent of the entire country's salt deposits, and high percentages of the country's boron and natural alkaline deposits. In the upper reaches of the Huang He which lie within Qinghai's boundaries, there is a total of over 10 million kilowatts of hydropower, which is able to provide energy for the exploitation of mines. There are 500 million mu of usable grassland, representing 15 percent of the country's entire usable grassland, and as long as it is managed properly, it can contribute even greater things to

the state. Second, natural conditions are relatively special. Its height above sea level is relatively great, with 60 percent of the province lying over 4000 meters above sea level. There are great fluctuations in temperature, with vast differences in night and daytime temperatures; its climate is generally cold and its rainfall low, but it has a very high evaporation rate. There is a serious lack of freshwater resources also. Qinghai's vegetation is sparse, with only 0.26 percent of its entire area covered by forest, making it the least afforested region of China. All in all, Qinghai may be seen as a cold, arid region, with weak ecological conditions. Third, agricultural production is limited by these natural conditions, and for a long time to come it will be difficult to achieve self-sufficiency in grain.

In light of the above characteristics, the definition of strategic thinking and an economic development strategy for the opening up of Qinghai should be based on the establishment of a heavy-duty structural system centered on the provision of natural resources. Full use must be made of the grasslands, and great efforts made to maintain and develop animal husbandry production. To this end, local industry must concentrate on developing those industries and spheres of production linked with the exploitation of natural resources, and, where conditions exist, certain industries involved in the processing of natural resources should be developed. On the basis of technological and management standards and the principle of macroeconomic efficiency, the maximum depth of processing for each area should be defined, and the best possible programs for natural resource processing should be chosen. Of course, local industry must also serve agricultural and livestock production, and efforts must be made to create a series of famous-brand local products with local color and suited to the needs of the national minorities. Agriculture and animal husbandry should concentrate mainly on raising the commodity rate of agricultural and livestock products, and on gradually decreasing the state grain subsidies. Great efforts must be made to conduct overall management of the grasslands, increasing the growth rate of grass and the quality of livestock, and decreasing the livestock mortality rate; we must work hard to contribute more to the state, and raise the living standards of the livestock-rearing masses.

In my opinion, this way of drawing up strategic goals for the economic development of Qinghai Province is in keeping with the actual conditions obtained in Qinghai, and thoroughly feasible.

Socialist economic construction must respect objective economic and natural laws; in the past, we more than once divorced ourselves from reality when drawing up development plans, and were taught a profound lesson in the process. Henceforth, we must draw on these lessons.

## 2. We Must Realize the Unitary Nature of the Public Ownership Economy, and Establish a Step-by-step Concept of Development

In the study of the economics of underdeveloped regions, there is a tendency to study the arrangement of the forces of production in isolation

from socio-economic and natural conditions, and some comrades call this the theory of balanced development. If we see it from the point of view of less emphasis on investment and more on speed of development, it is possible to call it the theory of balanced development. However, this theory sometimes even demands totally uniform economic development, ignoring all differences in the economic development of the various regions, and therefore, it is in fact a theory of equal development. The theory of equal development cannot take an objective attitude to the regional differences in level of economic development, does not consider the forces of production to be the product of previous human life, does not recognize the step-by-step process of regional economies, and does not in fact recognize the unitary nature of the public ownership system or the overall effectiveness of the macroeconomy. Basically speaking, lack of development is a historical phenomenon, and the improvement of underdeveloped situations must be carried out historically, whereas demanding equal development of regional economies is in fact by no means helpful to this development. Moreover, the equal development of regional economies is impossible, because the differences between the degree of economic development of different regions is absolute. Following the liberation, the national minority economic regions saw great development, and according to statistics from the five provinces and regions of Nei Monggu, Guangxi, Guizhou, Yunnan, and Sichuan, the total investment in fixed assets, total industrial and agricultural output value, and national income rose respectively by 50 percent, 58 percent and 54 percent since 1979, all higher than the national averages of 41 percent, 44 percent and 41 percent respectively; however, they still await further massive development in many areas. The problem of the underdeveloped areas is essentially one of national strength. This is not only the case in China; some of the industrialized nations of the world have unequally developed regions. Without the development of the eastern region, the United States could not have opened up its western region; without the development of its western region, the Soviet Union could not open up Siberia; and the opening up of Japan's islands depended on the industrial development of its other regions. Right up until today, the difference between the development of these regions still exists, and total equality has not yet been achieved. With science and technology constantly developing, technological transformation cycles have shortened considerably, increasing opportunities to bridge the gaps between regions. The technological- and brain-intensive "Silicon Valley" and "Gene Valley" in America, along with Japan's "Silicon Island," represent only small areas, and do not extend over the entire countries. China's old established industrial bases on the coast, such as Shanghai and Tianjin, have been accumulating wisdom and technology for hundreds of years, and we cannot hope to catch up with the economic and technological level of these areas in a short time.

The fundamental change brought in the national economy by the system of public ownership by the means of production lies in the fact that it objectively requires, and is subjectively able to carry out, the arrangement of the forces of production according to needs, and thereby carry out the best possible development of production; therefore, the planned

development of the national economy is the main indicator of the public ownership system. Under conditions of a public ownership system, both regional and departmental economies must become part of the national macroeconomic structure, and play an integral part in the national distribution of investment. In general, three power balances must be achieved: first, the balance of national power, and last the balance of capital construction must be based on national financial and material strength; second, a power balance must be achieved which guarantees for construction, such that priority is placed on solving the problems of most urgent need of solution in the national economy; and lastly, a power balance must be achieved on the basis of efficiency, and on this basis a choice must be made between several equally urgent and viable investment programs.

In the past, we often stressed "the perfection of the state entity," and "self-sufficiency" brought us many losses in the past, and marked changes have now taken place in our view. However, in the aspect of the processing of natural resources, it is inevitable that this or that argument will arise. This argument is due mainly to two reasons: First, on the issue of local administrations' income and expenditure, a region will always hope to build up its own financial power, so that it can do more things; this is understandable. However, if the source of this financial power brings losses to the macroeconomy, it cannot be drawn upon. Second, it is often the case that natural resources are not dealt with properly, such that often the in-depth processing of natural resources is carried out locally without consideration for objective conditions. In fact, this concept and way of acting lacks overall thought. The degree of depth at which natural resources are processed must be decided on many factors: in addition to the degree of wealth in an area in a certain natural resource, and the state of its exploitation and use, there are also reasons for the supply of natural resources, their sale, their transportation, their deployment, and the rationality of their structure, etc. etc. Natural resources must be processed in situ, while some can either be processed locally or primary processing carried out locally, then transported to other areas for in-depth processing. The answer to how much processing is to be done locally can only be found in the macroeconomy.

The question of what an underdeveloped province or nation should do in response to the new technology revolution is another old issue. It would seem that we ought to be still and let the world move on, avoiding blindness. We must take a positive attitude to the new technological revolution, and as far as possible, learn from the newest results of technological progress, working hard to enter in a new stage of development in certain production sectors by making use of advanced technology. However, still some people think that the advanced technology base as we have in our own country is not enough, and we must, especially the popularization of science and technology, which brings results through small reforms. At the same time, of advanced technology we must also stress efficiency, rather than trying to import the world's most advanced technology whether or not we are able to use it. In the same way, when utilizing new technology, we must be

aware of the basic characteristic of the public ownership system, and recognize the difference in the stages of development between developed and underdeveloped regions.

### 3. We Must Make the Issue of Universal Enhancement of Economic Performance a Strategic One

Poor economic performance is a universal problem in underdeveloped provinces and regions. According to statistics from eight underdeveloped provinces and regions, Nei Menggu, Guangxi, Guizhou, Yunnan, Xizang, Ningxia, Xinjiang, and Qinghai, the labor productivity rate in whole-people owned industrial enterprises is 20 to 40 percent lower than the national average, while output value fund rate, output value tax rate, speed of fund circulation, and other major economic indices in industrial enterprises, are generally all lower than national averages. In 1982, the per-100-yuan-capital tax rate was only one sixth of the national average, while the amount of enterprises making losses was over double the national average. Over the past 5 years, local financial income amounted to only 22 percent of overall financial income. The problem of economic performance directly limits Qinghai's economic development and the improvement of its people's material and cultural lives.

Poor economic performance represents a kind of loss, and for underdeveloped regional economies is in fact a counteractive force. This may be seen in a situation in which production is lessened in conditions of the same amount of investment, or investment has to be increased for the same output. But at the same time it represents a sort of potential, meaning that as long as management is improved, and the production initiative of the laborers enhanced, the production forces may be developed swiftly with no extra investment, narrowing the gap between backward and advanced regions. Therefore, for underdeveloped regions, there is no choice but to take seriously the task of improving economic performance, and find a solution to it on the high plane of strategic development.

If underdeveloped regions are to carry out the overall improvement of economic performance, they must solve the following three problems:

First, liveliness and effectiveness. This is the basic factor acting on economic performance, and an enterprise which lacks liveliness and effectiveness, no matter what its technological facilities are, cannot possibly perform well. The improvement of economic performance reflects the function of management, and to a greater extent represents the issue of our own work.

Second, the problem of readjusting enterprises. The poor economic performance of some enterprises is due not wholly to subjective factors, but also to the arrangement of products. In our past work, this sort of problem cropped up in a large proportion of enterprises; it is a congenital shortcoming in enterprises, and without basic rectification it cannot be solved. For those enterprises with a seriously irrational arrangement of products, backward commodities, and wrong production orientation, appropriate

readjustment measures should be adopted according to differing conditions, and they must not be allowed to go on lagging behind in the industrial construction.

Third, the problem of technology and information. The poor economic performance of some enterprises is due neither to subjective reasons, nor to bad arrangement of products, but to backward technology and information. As long as we help them to raise production and management technology, they can get out of their passive situation, and will improve economic performance. For an enterprise, technology and information problems are factors which play a universal and eternal role.

Over the last 2 years, there has been much discussion on the question of economic performance, but there are still many problems in actual production life; and the lack of inner motivation of improving economic performance is the main problem. The genuine solution to this problem lies in reform.

#### 4. We Must Adopt Special Strategic Reform Measures on the Basis of the Level of Development of the Production Forces in Underdeveloped Provinces and Regions

Socioeconomic movement represents the function of the combined function of the forces and relations of production. The reason why underdeveloped provinces and regions are underdeveloped lies not only in the fact that there is insufficient investment in their forces of production, but also in the problem of management and production relations. We have been taught much by practice in this respect.

The development of production forces in underdeveloped regions is at a relatively low level, and from the point of view that relations of production must be suited to the forces of production, an even greater breadth must be allowed in the economic system reform. At the very least, the agricultural reform showed us this: In order to enliven the socialist economy, it is necessary to mobilize the enthusiasm and initiative of the hundreds of millions of laborers, and to progress in depth and breadth in production. And in order to mobilize this sort of enthusiasm, it is necessary to handle properly the relations between the interests of the state, the collective, and the individual, and use more economic methods to manage the economy. In the reform of the management system, as long as we maintain the premise of the public ownership system and the planned economy as the dominant structure and on that basis help along the development of the forces of production, we will find enthusiastic support. This experience has universal application in both animal husbandry and industry.

At present, in the economic sphere of Qinghai Province, there still exists the problem of some relations of production being unsuited to the forces of production, and there is consequently a need for further reform. All in all, the income system is too rigid. Basically, livestock production still maintains the model of public ownership and individual husbandry of livestock, which does not benefit the improvement of grasslands utilization.

and the development of livestock production. At present, animal husbandry should learn from the agricultural system, and under the system of the public ownership of the grasslands carry out individual raising and ownership of livestock, and fulfill purchasing plans according to the regulations, thereby better linking the development of production, the management of grasslands, and the personal interests of the pastoral peasants. More interests must be allowed for the peasants, such that they are able to build up their strength, accumulate livestock, and develop production. The "big pot" problem in the urban economy has not yet found a basic solution, and this represents a universal problem. The "big pot" has hindered the development of the urban economy over the last few years, and is increasingly clearly unsuited to the great change for the better in agriculture. In Qinghai, the solution to this problem requires the linkage of the readjustment of the economic structure with the better handling of economic relations; weak links must be overcome, and a highly efficient urban economic system established. In addition, it is necessary to adopt certain effective, special reform measures.

Finally, we cannot but solve the problem of a relationship highly important in the socioeconomic development of underdeveloped provinces and regions, that is, we must fully bring into play the role of intellectuals and investment in intellectual resources. We cannot see the intellectual investment issue as the problem of a single mine or factory department, neither can we see intellectual resources as something which can be bought immediately, like factory machinery or equipment. [Passage indistinct] intellectual resources, as a force of human civilization and knowledge which is able to transform the objective world, has an effect on the overall level of socioeconomic development. We cannot see backwardness and advance in isolation from the level of intellectual resources. Backwardness and advance are comprehensive social phenomena, and in order to change backwardness, it is necessary to lay great emphasis on the accumulation of intellectual resources, and bring into full play the role of intellectuals, universally improving the scientific and cultural quality of the broad masses of working people. This is another formidable task faced by us in the underdeveloped provinces and regions. Looking at Qinghai's situation, the present problem is the need to universally improve the extent of education, and to organize properly the forces of present intellectuals, concentrating this force on the large-scale development of Qinghai. Through their work, we must train and create a strong regiment of pioneers. We must not only verbally just discuss, but actually carry out the party's policy on intellectuals, that is, we must bring in more intellectuals to Qinghai to carry out construction, and also adopt actual measures to stabilize their lives. In a certain sense, this stability problem is even more important, since it affects not only those who are coming now but those who will come later. If this problem is not properly solved, it will be difficult to get anyone to come here. At present, we are experiencing not only the introduction of new intellectuals, but the exodus of intellectuals dissatisfied with conditions. The loss of personnel, especially of comrades in Qinghai who work so hard, is a loss to Qinghai's construction which cannot be overlooked. In this aspect, I think that we should carry out certain necessary strategic reform measures, and carry out certain special policies, so as to find a complete solution to this problem.

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## SHANGHAI YOUTH IN VULNERABLE PROTECTION CATEGORIES OF S

MATHIAS BRUNDI VINJAN: Political Service in Scandinavia

[Excerpt:] The party's policies on education have helped make the 50,000 educated youths from Shan State and other states, from 1960 to the middle of border areas and have made them stronger fighters in the front line in the course of reform of the economic structure. They have been promoted to leadership posts at all levels and even some of them have become rich through hard work.

In August last year, leading commanders of the Central Military District, including Major Ziyar, cordially received the border-sustaining teams and the 1st Agricultural Division. They highly appraised the efforts of the border guards in building the border areas and placed earnest hopes in the

Party organizations at all levels of the army have seriously increased the instructions of the leading comrades of the central authorities, and have attached more importance to training, and employing the cadres sent to the 1st Agricultural Division has selected a number of former cadres for training youths for leadership groups of the division and regiments, and for education or jobs. Many educated Shanghai youths have become people of culture, self-study, and have become specialized, technical backbone forces on all fronts.

to the sake of further relaxing the policies in the economic sector, the support of youths have built houses, have set up factories, and some of them have engaged in small industrial and sideline trades. They have gradually become well off.

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JINGJI YANJIU ON REFORM OF FINANCIAL SYSTEM

HK060717 Beijing JINGJI YANJIU in Chinese No 10, 20 Oct 84 pp 21-25, 39

[Article by Cai Zhongzhi [5591 6850 4160]: "On the Reform in China's Financial System"]

[Text]

1

Since the 3d Plenary Session of the 11th CPC Central Committee, significant reforms have been made in our country's financial system, certain results have been attained, and progress has also been made in financial theories. Principal among them are: recognizing credit, loans, and interest as powerful levers in readjusting the economy; establishing a financial structure with a central bank as the nucleus and specialized banks as supporting backbone; loan and credit activities entering the realm of fixed assets; putting into effect floating or differential interest rates and enforcing the policy of fixing interest rates and credit and loans on the basis of "supporting superior units" and "determining production according to sales"; and carrying out pilot tests on the application and use of diversified credit forms and instruments. However, in recent years, banking reforms were mainly concentrated on perfecting the original planning and management system of credit and loans, repairing loopholes on the management side of the distribution of funds, and were confined to the administrative phases of centralization or decentralization of power and to structural organization. The steps of reforms taken have not been broad enough. Confronted with the increasing growth of commodity production, reform of the economic system, and the challenge of the new world technological revolution, financial reform has remained in a passive state. This is principally seen in the following five points:

1. To varying degrees commodity producers possess the power of determining production plans, deciding on the distribution of receipts, and engaging freely in the buying and selling of commodities. Concurrently, they can raise funds themselves for the expansion of reproduction and can invest their own funds in high-yielding departments or enterprises. But the existing currency system still does not allow direct contact between those raising funds and those investing funds, nor has it provided the necessary financial and credit tools for such direct blending of funds. As a result, the blending of funds between commodity producers cannot be carried out.

The formation of monetary relations and the consequent development of financial systems breaks the original monetary

of the 1970s, the 1980s, and the 1990s. The 1970s were characterized by a strong emphasis on the role of the state in the economy, while the 1980s and 1990s saw a shift towards a more market-oriented approach. This shift was driven by a combination of factors, including the need to attract foreign investment and the desire to improve economic efficiency. The 1970s also saw a period of rapid growth in the economy, which was largely driven by the oil boom. However, this growth was followed by a period of stagnation in the 1980s, which led to a re-evaluation of the role of the state in the economy. The 1990s saw a period of rapid growth, which was largely driven by the technology boom. This growth was followed by a period of stagnation in the 2000s, which led to a re-evaluation of the role of the state in the economy. The 2010s saw a period of rapid growth, which was largely driven by the technology boom. This growth was followed by a period of stagnation in the 2020s, which led to a re-evaluation of the role of the state in the economy.

(ii) To discount costs in developing forestry products (e.g., sawn timber),

Equation (10):

On verification of the formation, existence, and persistence of equilibria of the proposed competition under condition of constancy of the number of members, the author has established the following:

1. The first step in the process of identifying a problem is to determine the nature of the problem. This involves a thorough understanding of the situation and the factors that are contributing to the problem. Once the nature of the problem is understood, the next step is to identify the causes of the problem. This involves a detailed analysis of the situation and the factors that are contributing to the problem. Once the causes of the problem are identified, the next step is to develop a plan of action to address the problem. This involves determining the steps that need to be taken to solve the problem and the resources that will be required to implement the plan. Once a plan of action has been developed, the next step is to implement the plan. This involves carrying out the steps that have been identified in the plan of action. Finally, the last step in the process is to evaluate the results of the plan. This involves determining whether the plan has been successful in addressing the problem and whether any further action is needed.

(c) *Interpretation* (type-2 interpretation)  $\rightarrow$   $\text{type} = \text{type}_1$  and  $\text{type}_2$ ,  
 (d) *Interpretation* (type-1 interpretation)  $\rightarrow$   $\text{type} = \text{type}_1$  and  $\text{type}_2$ ,  
 (e) *Interpretation* (type-0 interpretation)  $\rightarrow$   $\text{type} = \text{type}_1$  and  $\text{type}_2$ .

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At present, our country already possesses the basic conditions for the opening of financial markets. First, since the 14th Plenary Session of the 11th CPC Central Committee, a series of policies enlivening the economy have created the basic conditions for the opening of financial markets. For example, Article 5 of the "State Council's Provincial Regulations Governing the Further Expansion of the Decision-making Power of State-run Enterprises," promulgated on 10 May 1984, specifically pointed out: "Funds temporarily not used for development of production may be employed by the enterprises, following the principle of voluntariness and mutual benefit and by means of such forms as joint operation, combined operation, or compensation trade, for investment outside the enterprises in order to enliven the use of capital." This illustrates that commodity producers may use the status of a legal person to invest directly outside the enterprises and also may use the status of a legal person to raise funds from outside. Second, our country has a number of economic centers and trade centers which are of a national or locality nature. These centers generally have a rather long historical background and are imbued with a relatively strong commercial atmosphere. Some of the centers, such as Shanghai before the liberation, were formerly national economic centers or financial centers, as well as international financial centers. Opening of financial centers in these localities before others will meet with little or no difficulty in solving the problem of talents and technology.

At the same time, it must be noted that opening of financial markets must be coordinated with other commensurate measures of reform. Seen from the current condition of economic reform in our country and for a certain period, the financial markets opened in our country will be of a limited nature. This limited nature is due mainly to the following factors: 1) the irrational price system of our country, leading to the inaccuracy of price signals, which greatly lowers the rational character of the free circulation of funds; 2) our country lacks a complete set of relevant statutes and laws, particularly legal statutes of a key nature which ensure operation of financial markets such as company laws, laws of negotiable instruments, and so forth; 3) our country's distorted economic structure and the unbalanced character of economic development determine that opening of the financial markets will be incomplete and that there will be no unanimity in either the location or timing of the opening.

In short, we should take due note that on the one hand, the basic conditions for opening financial markets are ripening, and, on the other, the conditions are still not quite sufficient, otherwise the degree and extent of the opening may be either too large or too small, or may even cause the withering of certain financial markets that have just begun to function. In either case, it will be disadvantageous to the forming or developing of the financial markets and even to the development of the national economy.

Below, I wish to make several policy recommendations on gradually opening the financial markets:

A financial market is where creditors (units with excess funds) and borrowers (units short of funds) contact each other and where different kinds of financial instruments or negotiable securities change hands. The significance of our country's recent opening up of financial markets is that within a definite sphere a place is created for direct contact and intercourse between units which have excess funds and units which are short of funds in the national economy. They provide both parties with the necessary financial and credit instruments and the relevant credit forms that they may adopt. They offer to the units with excess funds various choices concerning the direction of investment, investment form, investment conditions, and so on. Likewise, to the units which are short of funds various choices are available concerning the source of funds, the form and conditions of raising funds, and so forth. This makes it possible, on the one hand, for the movements of lending and borrowing to reflect the demands of the two sides of supply and demand, and, on the other, for extrabudgetary funds to be subjected to the guidance of the state plan. Following this type of basic thinking, the possible methods of procedure in the recent opening of financial markets may be mentioned as follows:

1. Documentation of commercial credit. Our country has banned commercial credit in general. However, because commodity production is governed by its own special laws, over the years commercial credit has, in reality, been in existence. It has not taken the documentary form, but rather the verbal form or the form of being registered in the books. But experience has shown that verbal credit is not as good as credit registered in the books, while the latter is not as good as the use of credit instruments. Documentation of commercial credit is advantageous to developing commodity production and commodity exchange rationally, to speeding up the movement of funds, and, especially, to strengthening control by banks by means of the procedure of discounting notes.
2. Developing the business of discounting of notes by banks. Insofar as banks are concerned, discounting of bills is one form of credit-granting business which is in harmony with commercial credit. This form of business easily reflects the quality and quantity of banking work and is advantageous to strengthening control of the use of funds by banks. At present, our country has not yet enacted a bill. In order to prevent bad checks in commercial credit there should be a regulation requiring that an enterprise, after selling goods on credit, should take the buying unit's promissory note to the buying unit's bank for endorsement of guaranteed payment before applying to the bank to have the note discounted.
3. Developing the rediscounting business of the Central Bank and coordinating the policy on the rediscount rate with regulating the supply of funds, thus in turn regulating the economy.
4. Allowing the direct blending of funds between units with excess funds and units which are short of funds. To make this blending of funds possible, it will be necessary for companies to issue bonds and shares. Under current conditions in our country, I believe that for the present security markets in our country should deal principally in bonds, while dealing in

stocks should be only supplementary. Organizations and individuals alike are our bonds, but subscribers to stocks should be chosen with caution, as, in principle, buyers of stocks should be principally legal persons such as organizations. Issuance of bonds and stocks, particularly stocks, should be combined with joint operation and production, which, in its nature, is translocality and transdepartmental and brings together different ownership systems. This will help in making advanced enterprises among the coastal areas develop investments in diversified forms in the interior, thereby realizing transfer of advanced technology and experience in management and speeding up progress in technology among the industries and trades. The emphasis of short-term bonds and stocks should be placed on products in short supply in the national economy and the major construction projects of the state, while payment of bonds interest and share dividends should be linked to the supply of these products. For the present, the direct blending of funds and the work of issuance of bonds and stocks should be entrusted to the care of trust departments of banks.

4. The opening up of second-level security markets is essential to security insurance markets. Without the existence of second-level security markets, securities will lose their circulatory character and this may bring difficulties to the flotation of securities. We should gradually open up security insurance markets, establish security exchange centers, and encourage firms specially engaged in security exchange transactions. However, seen from the country as a whole, conditions are still not ripe for the opening of second-level security markets.

The principal reasons are: 1) flotation of securities is still not regularized; 2) the relevant statutes are lacking; 3) the quality of the marketing personnel is still not up to standard; and 4) basic facilities are still lacking, such as communications and telegraphic transmission facilities. Here, giving due consideration to actual conditions, and at the same time in order that securities can circulate, at present the flotation and circulation of securities may be entrusted to the trust departments of banks, which may take charge of their buying or selling. In several large cities, such as Shanghai and Wuhan, which have relatively advanced conditions, stock exchange centers may be experimentally established in the near future, although transactions should first pass through the existing trust departments of the banks as a transitional measure.

5. Promote the formation of various kinds of financial institutions of a collective, regional, industrial, and trade character. At present, permission should be granted principally for the formation of financial organs of a nonbanking nature, and an exceptionally cautious attitude should be taken toward the formation of banks. These financial organs should be made responsible for their own profits or losses. The central bank should clearly regulate the spheres of their operations.

7. Among the countries of the world a strict division of work between banks is seldom seen. Particularly among the developed countries, the business of commercial banks is gradually proceeding in the direction of a comprehensive and all-round development. First of all, we should allow the four big specialized banks and insurance companies to let their businesses intersect, in order to break the condition of low efficiency rates and poor services caused by monopoly. Division of work among the banks is necessary, but intersection in business should be permitted to help competition between the banks.

8. It is necessary to expand the self-managing power of the existing specialized banks and of banks at the grassroots level, to reform their management structure and their management system of credit and loan targets, and to seek development in the direction of making the grassroots units "operate independently, be responsible for their own profits or losses, and be run in a businesslike manner."

9. The major points in the present opening of financial markets, or rather in the transitional stage of gradually opening up the financial markets, should have as their principal aim the strengthening of the construction of the trust structure of the existing banks and the expanding of the sphere of their business operations. At present, the many financial and credit instruments, and various credit forms, which the financial markets must have, as well as their functions of issuance and exchange of securities, discounting of bills, and so forth, may all be entrusted to the trust departments for handling. The existing trust departments of banks at various levels should become the principal participants and active elements in the present financial markets. It can be imagined that the major operators in the future financial markets, such as brokerage companies dealing in the exchange of securities, may quite possibly develop from the existing trust departments of banks.

10. Our country's financial system, the use of financial and credit instruments, policies on interest rates, and so on, may all adopt the "dual-track system." For example, although there may not be a major change in a bank's interest rates, its trust department may freely determine its interest rates in accordance with market conditions and the state of supply and demand. The "dual-track system" should become an important and special feature in the course of financial reform in our country.

In my opinion, the medium and long-range thinking in financial reform in our country should be as follows:

1. Gradual formation of a financial system which has the central bank as the nucleus, a number of large banks as the backbone, and numerous medium-sized and small banks as the basic units, and investment companies, insurance companies, and securities exchange companies as supplementary units.

2. The direction of reform would be to let the financial center cities organize the financial activities of the whole country.

of enterprises which do not belong to the central bank and other enterprises, must possess the status of independent enterprises, have decisionmaking power in their operations, and bear their own profits or losses. Macroscopic control should be exercised by the central bank.

Transactions in various kinds of securities should be transferred from the trust departments of banks to specialized investment companies for handling. In developed countries, a securities exchange should be established. A securities clearinghouse should be established to take charge of the overall clearing and transactions throughout the country. Brokerage companies should be formed to handle concrete securities transactions. The brokerage companies should, in accordance with local statutes and regulations, examine and approve securities in the market.

Financial markets should be opened at suitable times and in suitable places, enabling our country's economy to face the world.

After years of effort, the gradual formation of an international financial center in our country.

### III

The opening of financial markets will meet with many difficulties. I may briefly discuss some of them as follows:

Financial markets versus planned economy. In the opinion of many people, the opening of financial markets will necessarily go against the planned economy. Under the conditions of a planned economy, we should not open financial markets. In my opinion, this view of setting up financial markets is incorrect. We should not mix up different ideologies on planned economy. The ideology and planned economy structure formed by the Soviet Union in the 1930's immensely influenced the theory and practice of socialist economic construction. In essence, this form of planned economy is a planned economy that refutes commodity production. It is a planned economy which we are currently developing. The opening of financial markets, which calls for vigorously promoting commodity production, is contrary to the conditions of commodity production, management of which should be realized principally through resorting to the market mechanism, economic levers, and bringing the functions of financial institutions into full play, and markets should form the basic framework. By interpreting planned economy in this way, the opening of financial markets is not only a refutation of the Soviet type of planned economy, but is also a refutation of our country's planned economy, which vigorously promotes commodity production. The opening of financial markets will offer to

our planned economy a series of management tools and levers, as well as an economic feedback system, and will enable our planned economy to be built on a foundation which can exercise more effective control and flexible regulatory tactics.

2. Opening of financial markets versus capitalism. In my opinion, we should differentiate between the common forms and certain commonly used tools and methods of modern civilization and commodity production on the one hand, and the concept of capitalism on the other. The commodity markets, commodity advertisements, laws on patent rights, negotiable securities, and so on formed by modern civilization and commodity production are the necessities of any social structure engaging in commodity production. We must not, as soon as we discern that we are using certain measures of economic management employed by capitalist countries, forthwith condemn them as being capitalistic. Although in appearance there are certain similarities, in essence the socialist commodity production we are vigorously developing is different from that of capitalism. The principal point of difference is that in our country the socialist public ownership system occupies the leading position, whereas under capitalism, the system of private ownership of the means of production is practiced. Moreover, the purpose of socialist commodity production is to satisfy the needs of people at large and the system of distribution according to work is enforced on the basis of the public ownership system, whereas capitalist production has the purpose of seeking the utmost surplus value on behalf of the capitalists and gives rise to extensive exploitation.

3. Opening of financial markets versus the problem of speculation. Under the prolonged influence of the theory of refuting commodity production, certain comrades equate exchange with speculation, making us insufficiently bold to expand the scale of commodity exchange and leading us to ban long-distance selling and transportation of goods, far less to engage in the direct blending of funds or in security transactions. In my opinion, under a planned economy of vigorously developing commodity production, security transactions, principally speaking, constitute a guidance mechanism which has the function of partially directing and guiding commodity producers to engage in investment and production or to shift their investment or to withdraw their investment, enabling funds, to a definite degree, to adopt a good form of natural and rational circulation. Speculative practices are found in the exchange of commodities and are likewise found in security transactions. I believe that there are two sides to an objective evaluation of the effects of speculative activities. On the one hand, speculative activities promote the rational circulation of commodities and funds; on the other hand, they may cause disorder and disruption in production. In our country, the main components taking part in exchanges or transactions are enterprises and units under the socialist system of public ownership and there is unanimity in their basic interests. Therefore, we have far better conditions than capitalism for bringing the positive factors of transactions in financial markets into full play and for overcoming the passive factors. In addition, in the security transactions in our country spot transactions should be the ruling factor, while future transactions should be only supplementary.

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## FINANCE AND BANKING

### PRC FOREIGN EXCHANGE RESERVES INCREASE

06081236 Beijing XINHUA in English 1153 GMT 8 Dec 84

[Text] Beijing, 8 Dec (XINHUA)--China's gold reserves stood at 12.67 million ounces at the end of the third quarter of 1984, the same as at the end of the second quarter, the People's Bank of China announced today.

The country's foreign exchange reserves were 16,674 million U.S. dollars, 191 million dollars more than at the end of June.

China's bank deposits totalled 291,591 million yuan at the end of September, 13,136 million yuan more than at the end of June.

Loans were 357,760 million yuan at the end of the third quarter, 25,669 million yuan more than at the end of the previous quarter.

Of the total, loans to industrial enterprises came to 69,485 million yuan, commercial loans accounted for 184,999 million yuan, short- and medium-term loans for buying equipment took up 22,749 million yuan, industrial and commercial loans to urban collective and individual businesses came to 20,545 million yuan, and rural loans stood at 28,089 million yuan. The figures all showed increases over the second quarter of the year.

Currency in circulation at the end of September was 58,720 million yuan. The operational funds of the People's Bank of China were 56,460 million yuan.

Deposits in rural credit cooperatives at the end of September came to 50,768 million yuan, 3,527 million yuan more than at the end of June.

Loans from credit cooperatives rose to 35,496 million yuan, an increase of 4,141 million yuan over the 31,355 million yuan recorded at the end of June.

(SO: 4020/50)

ECONOMY ENTERS NEW STAGE OF SUSTAINED GROWTH

Beijing (HONGKONG RIBAO in Chinese 27 Oct 84 p 1)

[Article: "Our National Economy Has Entered a New Stage of Growth: Production and Construction Have Comprehensive Growth, Domestic and Foreign Trade Are Flourishing and Revenue Increased"]

[Text] During the most recent period, each of China's 10 industries has spread news that will make people happy. The latest data make clear that China's national economy has entered a stage of sustained growth, and the entire financial situation has gradually taken a turn for the better.

Striving for a basic improvement in the country's economic situation is a goal that the 12th Party Congress years ago to be realized within 5 years. During the past 5 years we have taken a significant step toward this goal. In the situation in the first 9 months of the year, there have been indications of the improved financial and economic situation.

First, production and construction have comprehensive growth. On the account of increased production of this year's summer and early rice alone has already surpassed the average yearly production of grain production in the 26 years before the Third Plenum of the CPC Central Committee. At present, autumn grain crops, oil crops, and other crops have yielded abundant harvests, and other harvests in forestry, animal husbandry, sideline industries and other fields also had unusually good harvests. The country's grain output in the first 9 months of the year was 12.4 billion catties, or the same period last year. The size of this grain output is seldom seen in recent years, and it relates to the spread increased production of industrial products, the development of the economy and the people's livelihood. Of this, the output of steel in the past 9 years has fluctuated at a high level, and this year for the first time it will top 10 million tons mark. At the same time, the transportation industry is also the pace of growth as required in the national plan, and accelerated peak construction in building various kinds of projects.



## FINANCE AND BANKING

### NEW METHODS FOR MANAGING CREDIT FUNDS DISCUSSED

Nanjing XINHEA RIBAO in Chinese 18 Oct 84 p 3

[Article: "Next Year China Will Try Out New Methods for Managing Credit Funds"]

[Text] Starting January 1 of next year, China will begin to try out new methods for managing credit funds, and under the presidency of Zhu Rongji, the Bank of China strengthening the macroeconomic control of credit funds, the specialized bank can regulate the use of credit funds.

This was pointed out by Hu Jingfang (1912-1992), Vice President of the People's Bank of China, at the Conference for Managing Credit Funds for Controlling the Credit Funds of the Nation's Bank of China convened in Shijiazhuang. Hu said that we must try out the new credit initiative the funds of each specialized bank, and we must not let the funds flow from the commercial banks. There are mainly five measures to regulate specialized banks and use to stimulate the credit funds.

—Reduce the proportion of deposits that the China Commercial Bank, the Agricultural Bank, the Industrial Bank, the Cotton Textile Bank, the Light Industry Bank, the Chemical Bank, the Foreign Trade Bank, the Insurance Bank, the Finance Bank, the Real Estate Bank, the Automobile Bank, the Air Transport Bank, the Railway Bank, the Water Transport Bank, the Post and Telecommunications Bank, the Education Bank, the Medical Bank, the Cultural Bank, the Sports Bank, the Entertainment Bank, the Tourism Bank, the Travel Bank, the Hospitality Bank, the Accommodation Bank, the Food and Beverage Bank, the Clothing Bank, the Textile Bank, the Leather Bank, the Paper Bank, the Printing Bank, the Publishing Bank, the Media Bank, the Information Bank, the Communication Bank, the Transportation Bank, the Logistics Bank, the Distribution Bank, the Retail Bank, the Wholesale Bank, the Import Bank, the Export Bank, the Foreign Exchange Bank, the International Bank, the Global Bank, the World Bank, the Universal Bank, the All-in-One Bank, the Everything Bank, the Anywhere Bank, the Anytime Bank, the Anybody Bank, the Anyhow Bank, the Anyway Bank, the Anytime, Anywhere, Anybody, Anyhow, Anyway Bank.

—Expand the scope of specialized banks for managing credit funds and regulate the funds. The specialized banks for managing credit funds are: the Commercial Bank, the Agricultural Bank, the Industrial Bank, the Cotton Textile Bank, the Light Industry Bank, the Chemical Bank, the Foreign Trade Bank, the Insurance Bank, the Finance Bank, the Real Estate Bank, the Automobile Bank, the Air Transport Bank, the Railway Bank, the Water Transport Bank, the Post and Telecommunications Bank, the Education Bank, the Medical Bank, the Cultural Bank, the Sports Bank, the Entertainment Bank, the Tourism Bank, the Travel Bank, the Hospitality Bank, the Accommodation Bank, the Food and Beverage Bank, the Clothing Bank, the Textile Bank, the Leather Bank, the Paper Bank, the Printing Bank, the Publishing Bank, the Media Bank, the Information Bank, the Communication Bank, the Transportation Bank, the Logistics Bank, the Distribution Bank, the Retail Bank, the Wholesale Bank, the Import Bank, the Export Bank, the Foreign Exchange Bank, the International Bank, the Global Bank, the Universal Bank, the All-in-One Bank, the Everything Bank, the Anywhere Bank, the Anytime Bank, the Anybody Bank, the Anyhow Bank, the Anyway Bank, the Anytime, Anywhere, Anybody, Anyhow, Anyway Bank.

—Increase the flow of credit funds for macroeconomic control. The specialized banks for managing credit funds are: the Commercial Bank, the Agricultural Bank, the Industrial Bank, the Cotton Textile Bank, the Light Industry Bank, the Chemical Bank, the Foreign Trade Bank, the Insurance Bank, the Finance Bank, the Real Estate Bank, the Automobile Bank, the Air Transport Bank, the Railway Bank, the Water Transport Bank, the Post and Telecommunications Bank, the Education Bank, the Medical Bank, the Cultural Bank, the Sports Bank, the Entertainment Bank, the Tourism Bank, the Travel Bank, the Hospitality Bank, the Accommodation Bank, the Food and Beverage Bank, the Clothing Bank, the Textile Bank, the Leather Bank, the Paper Bank, the Printing Bank, the Publishing Bank, the Media Bank, the Information Bank, the Communication Bank, the Transportation Bank, the Logistics Bank, the Distribution Bank, the Retail Bank, the Wholesale Bank, the Import Bank, the Export Bank, the Foreign Exchange Bank, the International Bank, the Global Bank, the Universal Bank, the All-in-One Bank, the Everything Bank, the Anywhere Bank, the Anytime Bank, the Anybody Bank, the Anyhow Bank, the Anyway Bank, the Anytime, Anywhere, Anybody, Anyhow, Anyway Bank.

--All specialized banks within this system can take the initiative to control and can flexibly redistribute credit funds.

--All specialized banks can liquid funds among themselves, can gradually increase the horizontal cooperation of funds among banks and can meet the needs of consolidating the cities to be the keys to organizing the economy. Qiu Ding stressed that the People's Bank of China, which plays the role as the bank of central committee, will control the scale of credit funds and the amount of currency issued according to the national plan, and will have different interest rates for the savings and for the loans of all specialized banks from the People's Bank of China.

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## FINANCE AND BANKING

### MEAL SUBSIDY STANDARDS LISTED BY PROVINCE

Shanghai SHANGHAI KUALJI in Chinese No 7, 25 July 84, p 42-43

[Article by Xing Cai [5887 2088]: "The Standards for Meal Subsidies for Each Province and Municipality"]

[Text] Question: Based on the regulations of the Ministry of Finance, the meal subsidies of personnel attending small research conferences for ordering goods and fittings, material distribution, and for the checking, appraisal and comparing of products, are determined according to the standards for meal subsidies in line with the regulations of the people's government in the province (municipality or autonomous region) in which the conference is located, and a certificate is given to the personnel attending the conference so they can return to their own units and apply for a reimbursement, yet they must not also apply for reimbursement for their room. What are the standards for each province's meal subsidies?

Answer: I have collected the following data:

1. Beijing Municipality: 1.3 yuan for those earning more than 100 yuan per month and 1.5 yuan for those earning less than 100 yuan per month (for conferences that are held in specially provided restaurants and hostels, an extra 0.30 yuan can be added after a specific list is attached).
2. Tianjin Municipality: usually 1.3 yuan, and not to exceed 1.5 yuan.
3. Shanghai Municipality: 1.3 yuan.
4. Jiangsu: 1.3 yuan.
5. Henan: 1.3 yuan for those earning more than 100 yuan and 1.5 yuan for those earning less than 100 yuan.
6. Heilongjiang: 1.5 yuan.
7. Guilin: 1.5 yuan.

8. Liaoning: 1.2 yuan for those earning more than 100 yuan and 1.4 yuan for those earning less than 100 yuan.
9. Inner Mongolia: 1.2 yuan.
10. Shaanxi: 1.1 yuan for those earning more than 100 yuan and 1.3 yuan for those earning less than 100 yuan.
11. Shanxi: 1.2 yuan.
12. Gansu: 1.4 yuan.
13. Ningxia: 1.3 yuan for those earning more than 100 yuan and 1.5 yuan for those earning less than 100 yuan.
14. Xinjiang: 1.6 yuan.
15. Qinghai: 1.3 yuan for those earning more than 100 yuan and 1.5 yuan for those earning less than 100 yuan.
16. Tibet: 2.0 yuan.
17. Anhui: 1.1 yuan for those earning more than 100 yuan and 1.2 yuan for those earning less than 100 yuan.
18. Jiangsu: 1.1 yuan for those making more than 100 yuan and 1.3 yuan for those making less than 100 yuan.
19. Shandong: 1.1 yuan for those making more than 100 yuan and 1.3 yuan for those making less than 1.3 yuan.
20. Zhejiang: 1.1 yuan.
21. Fujian: 1.4 yuan.
22. Jiangxi: 1.2 yuan.
23. Hunan: 1.3 yuan.
24. Hubei: 1.1 yuan.
25. Sichuan: 1.3 yuan (1.1 yuan for work conferences within the province).
26. Guangdong: 2.2 yuan for those earning more than 100 yuan and 2.4 yuan for those earning less than 100 yuan.
27. Guangxi: 1.3 yuan for those earning more than 100 yuan and 1.5 yuan for those earning less than 100 yuan.

28. Yunnan: 1.5 yuan.

29. Guizhou: 1.4 yuan.

(Note: The Beijing Food Supply Office provides a list of guest houses, restaurants and hostels that completely provide non-staple food according to the special needs of users: the No 1 Guest House of the Business Management Office of State Council Organs and the Xishan Guest House, the Guest House of the General Office of the Standing Committee of the National People's Congress, the Guest House of the Zhongzhi Management Office, Wanshoulu Guest House and the Cuimingzhuang Guest House, the Jingxi Guest House, the No 1 Guest House of the General Staff, the No 1 Guest House of the Beijing Military Region, the Xiyuan Restaurant, the Beijing No 4 Guest House, the Dongfang Restaurant, the Guest House of the Workers' Stadium and the General Political Department Guest House.)

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VIEWS ON ESTABLISHING CHINESE SYSTEM OF ACCOUNTING THEORY

Beijing KUALJI YANJIU [ACCOUNTING RESEARCH] in Chinese No 3, 30 Jun 84 pp 34-36

[Article by Yan Dawu [7051 6671 0063] selected from NONGYE HUIJI YANJIU [AGRICULTURAL ACCOUNTING RESEARCH STUDIES] No 1, 1984 by Xiao Jian [2556 0256]: "My Views On Establishing a Chinese-Style System of Accounting Theory and Methods"]

[Text] "Founding a Chinese-style system of accounting theory and methods focused on economic results" is a general need, and this article will discuss certain personal views on putting it into effect and the need to be specific.

1. The Specific Contents of a System of Accounting Theory and Methods

A system of accounting theory and methods is a system of knowledge on accounting practice accumulated by mankind. This system should scientifically answer the following six questions:

1. What are the nature, function and role of accounting? This is the basic theoretical question of accounting, and its contents include accounting's properties and functions and its position and role in management and administration.

Accounting circles at home and abroad have always had varying views on the social phenomenon of accounting. The dominant Western viewpoint is that accounting belongs to the category of S&T, is concerned only with development of productive forces, and is a technical method to handle data. Along with the development of accounting practice, although there have been some changes in the specific language defining accounting, essentially there have not been many major changes. By the late 1970's, "information systems theory" had become the most prevalent viewpoint in foreign accounting works. This viewpoint is that "accounting is an information system", and its purpose is to provide "highly significant economic information" to all concerned sides. Based on this understanding of the nature of accounting, the following views are extended on the function, position and role of accounting: The basic function of accounting is to report, and not to directly engage in management; accounting work occupies a service position in enterprise management and administration, and provides advisory services for management.

Some comrades in our country's accounting circles have challenged the above viewpoint in recent years and have set forth certain preliminary views. These viewpoints are roughly summarized as: Accounting is an administrative activity longing to the category of management and administration, and it is concerned with productive forces, productive relations and even the superstructure; the basic function of accounting is to report and supervise (or to control), and it has additional diversified functions such as calculating, analyzing, examining, evaluating and policy-making; accounting work plays an important role in both microeconomic management and administration and macroeconomic management; in addition to providing information, accounting itself has a direct administrative function, and it can participate in planning, policy-making and management; planning and control are the two basic functions of enterprise management, and the control function has always been achieved by accounting. Some comrades have also pointed out that as people use the concept of "planned management", they advocate the use of the concept of "accounting management". Since various viewpoints have appeared, it will be necessary to achieve unanimity of understanding through discussion as the basis for establishing a system of accounting theory and methods.

2. What are the contents, duties and methods of accounting management? What needs to be resolved here is considered as administrative work, what will accounting management manage, how will it manage, and what are its goals. It is obviously premised on affirming that accounting is an administrative activity, and that accounting work is economic management work. Proceeding from the technical view of accounting, Western accounting theory research of course does not include these kinds of questions. Chaotic conditions existed in the past on handling these kinds of questions in the exposition of our accounting theory. The major manifestations were the common contradictions in understanding the nature of accounting in the expression of accounting targets and duties; the existence of confused and unclear phenomena in the comprehension and concept of accounting methods; and especially that the understanding of the major problem of the relation between financial affairs and accounting had basically remained at the level of the 1950's, issues were only made of who was most important or who included whom, and a thorough analysis of the great disparities existing in the basic nature of these two social phenomena was not made, thus causing the problem of the relationship between financial affairs and accounting to become a major unsettled question in studying accounting theory.

3. What is the organization of accounting work? This is solving certain questions concerning how to scientifically and rationally organize accounting work. The contents of organizing accounting work are determined by problems related to the composition of accounting management and generally include: Setting up accounting organizations, stipulating accountants' rights and duties, formulating accounting systems, legally revising the relationship between financial affairs and accounting, rationally organizing financial accountant labor, defining the technological process for accounting management, understanding work

characteristics and the art of leadership and organization for financial accounting work leaders, organizing work in designing, utilizing and adopting automated management systems for technical equipment in accounting management, studying accounting management work from the social and psychological viewpoint, and appraising management efficiency and the improvement and perfection of accounting management work. Our country's past accounting works have very slightly touched upon these problems. But judged by practice, there is an urgent need to summarize practical experience in this area into theory, enabling it to be systematized and standardized and to become a major component of the whole accounting theory and method.

4. What is a system of accounting methods? This refers to accounting management methods, and is the general term for various applied measures in achieving accounting management duties and goals and in carrying out accounting management activity. Accounting methods are closely related to accounting goals, functions and principles and the latter are the theoretical basis of the former and the foundation for establishing various methods.

Proceeding from management theory, accounting theory methods can be divided into professional, organizational and educational methods; based on the condition of the achievement of its function, professional methods can also be divided into data processing, supervision and control, analysis and appraisal, and calculation and policy-making methods. In order to study the composition of a system of accounting methods, it is also necessary to study it in the context of the overall management system (management goals, functions, principles, methods and technical measures), enabling it to form a unified whole with other management methods. Methods are measures to carry out functions and accomplish duties, and using isolated methods can only create theoretical confusion.

5. What are accounting study research targets and their scientific properties? I propose dividing accounting and accounting study into two independent concepts and giving them each a specific meaning. Accounting refers to accounting work, and the definition of accounting must include theoretical abstractions and generalizations with accounting work as the prototype. But accounting study is man's intellectual system for understanding the laws of accounting work, the knowledge from studying accounting work, and its research targets should be objectively defined. I prefer making accounting study a multi-propriety frontier science since accounting practice is also a multi-propriety administrative activity.

As an academic system, the accounting discipline can be divided into various categories. Generally speaking, the accounting discipline should be composed of three categories, the special basic category, the special category, and the research category. The major existing accounting discipline is the second category, there is also some of the first category but it is fairly inadequate, and the third category remains to be developed.

6. What is the development and history of accounting? Current accounting theory inadequacies are closely related to the long-term neglect of historical research into accounting. It will be possible to explore directions for the future development of accounting work through study of accounting history.

In addition, it will be possible to study problems such as the modernization of accounting work (including future accounting research), making it more scientific, and the theoretical pillars of accounting study. The effect of the information revolution on accounting is also a major problem needing close attention.

## II. On "Focusing on Stressing Economic Results"

This topic is the need to establish accounting theory and methods on the theoretical and practical basis of man's stressing of economic results. It includes three levels of meaning: The first says that stressing economic results is the objective basis producing accounting; the second says that the theory and practice of man's stressing of economic results has a direct restrictive effect on the formation and development of accounting theory and methods; and the third says that accounting management occupies a decisive position in man's practice of improving economic results. If we can clearly explain these three levels of meaning combining theory and practice, we can achieve a fairly deep understanding of the relationship between accounting and economic results and thus discover a specific way to establish a system of accounting theory and methods focused on stressing economic results. Economic results and accounting have a special, natural consanguinity. The establishment of a system of accounting theory and methods relies on this central line of stressing economic results as its mainstay.

## III. Reflecting China's Characteristics

There are various views in accounting circles on the wording of this "founding a Chinese-style system of accounting theory and methods". My view is that since the social properties of accounting reflect the characteristics of each social system, the wording of the above thus not only refers to the need for general principles to be combined with China's practice, but also includes the idea of using our world view and methodology to transform the existing system of theory and methods.

The specific contents of reflecting China's characteristics should be:

1. Guided by Marxism-Leninism and Mao Zedong Thought, and taking a summary of our country's financial accounting work experience as the major factor, it must analytically and discriminately assimilate overseas achievements and set up an established system of accounting theory and methods. 2. It must cast off the fetters of the traditional viewpoint of a purely technical methodology, and proceeding from the basic viewpoint that accounting is an administrative activity and

accounting work is economic management work, establish a new system of theory and methods. 3. Taking conscientious focusing on economic results as the main line, it must establish a system of theory and methods accurately reporting and appraising combined macroeconomic and micro-economic results. 4. It must adapt to the needs of our country's planned economic system and establish an accounting management system both serving planned management and able to promote the successful development of market adjustment. 5. It must reflect the unity of stressing value and use value, and mainly through value management accounting work, i.e. for managing funds and currency movement, solve various contradictions between value and use value which appear in regular economic activity, enabling the two to realize their optimum unity both microeconomically and macroeconomically.

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CSO: 4006/6-A

## FINANCE AND BANKING

### BRIEFS

**ANHUI TAX COLLECTION**--By 20 November, Anhui Province had collected 1,788 million yuan of industrial and commercial tax, overfulfilling the annual plan by 1.6 percent 40 days ahead of schedule, and registering an increase of 17.11 percent over the same 1983 period. [Summary] [Hefei Anhui Provincial Service in Mandarin 1100 GMT 24 Nov 84 OW]

**NINGXIA REVENUE**--Yinchuan, 12 Dec (XINHUA)--Ningxia Hui Autonomous Region has fulfilled this year's revenue project ahead of schedule. As of 10 November, the region's revenue had reached 195.92 million yuan, overfulfilling this year's goal by 2.6 percent and topping that of the same period last year by 22 percent. [Excerpts] [Beijing XINHUA Domestic Service in Chinese 0302 GMT 12 Dec 84 OW]

**JILIN TAX COLLECTION**--By the end of November, Jilin Province had collected more than 1.51 billion yuan of taxes, fulfilling the annual quota by 97.5 percent and registering a 15.7 percent increase over that of the corresponding 1983 period. [Summary] [Changchun Jilin Provincial Service in Mandarin 1030 GMT 7 Dec 84 SK]

**STATE LOANS FOR JILIN**--The State Council recently granted 25 million yuan in loans to help specialized households in Jilin Province build corn storage facilities. Such loans had been granted to the provincial grain departments by the Changchun Municipal Industrial and Commercial Bank. Of the loan sums, 9.1 million yuan was granted to Changchun City. [Summary] [Changchun Jilin Provincial Service in Mandarin 2200 GMT 17 Nov 84 SK]

**LIAONING TAX REVENUE**--As of the end of November, Liaoning Province had overfulfilled the annual industrial and commercial tax revenue plan, an increase of 14.4 percent over 1983. [Summary] [Shenyang Liaoning Provincial Service in Mandarin 1030 GMT 11 Dec 84 SK]

CSO: 4006/169

## MINERAL RESOURCES

### GAO YANG ON DEVELOPING MOUNTAIN AREA MINING

HK060701 Shijiazhuang Hebei Provincial Service in Mandarin 0430 GMT 29 Nov 84

[Excerpts] According to BAODING RIBAO, Provincial CPC Committee First Secretary Gao Yang, accompanied by Baoding Prefectural CPC Committee Secretary (Zeng Zhenguo), inspected work in Laiyuan County on 17 and 18 November. After hearing work reports delivered by responsible comrades of the county CPC Committee and government, Comrade Gao Yang gave important views on developing mining in mountain areas.

Comrade Gao Yang said: Viewing the situation of Laiyuan County in the context of the situation of the whole province and the whole country, I think that the county is on the verge of great development in economics and culture. My reasoning for this is as follows:

1. Our country is now speeding up the development of economic and cultural construction. In these circumstances, output of metallurgical and non-metallurgical mines cannot meet the needs of the processing trades concerned. The previous situation of high profit from processing and low profit from mineral extraction has to be changed. This is favorable for Laiyuan. Apart from its minerals, the country's geographical position and transportation situation are also relatively good.
2. Communications and transportation represent one of the key points in national construction. Laiyuan County has a railroad and also main highways. It can now vigorously promote local road construction and develop local transportation in accordance with the central demand for further developing transport and with the principle of having the state, the collective, and the individual get to work together.
3. The central authorities have decided to open up to the world, while the different regions in the country should still more open up to each other. Quite apart from foreign capital and technology, those within the country and the province can also be utilized. Some areas have capital but no mineral resources. As Laiyuan has minerals, they can invest in the county and cooperate with it in exploiting this mineral wealth. Apart from mines, they can also launch service trades, open hotels and inns, supply vegetables, and provide local employment.

4. Laiyuan has the basic conditions for economic development. As it has a railway, it is convenient for people to come from elsewhere. Telecommunications facilities are also quite good. There are various industries, on a considerable scale. Culture, education, public health, science, and technology have all developed to some extent. Although the county is in financial difficulty at present, and has not done some things it should have done, industrial agricultural production is rising each year.

5. The leadership groups throughout the county are gradually being readjusted. Their ability for leading the four modernizations is better than before. In view of all this, I say that Laiyuan is on the verge of great economic and cultural development.

Comrade Gao Yang said: Mineral extraction is Laiyuan's outstanding industry. Opening up new mines plus initial processing of the output of existing mines should be regarded as the key point in economic development, and lead forward other undertakings.

1. It is necessary to have a clear idea on railway transportation, the important prerequisite for developing mining. Railways, especially for long-distance transport, are essential for increasing mineral production.

2. Vigorously promote highway construction and develop heavy truck transport. Next year you should regard road construction and the purchase of heavy trucks as an important task.

3. Seriously organize the masses to extract minerals. Over half the townships in the county have mineral resources. These townships should bring in surplus labor from townships that lack such resources, to work together in extraction.

4. Conduct publicity for exploiting mineral resources, to attract capital and technology from elsewhere to the county for extraction and processing.

5. Do a good job in planning. A number of minerals should be selected as focal exploitation products.

6. Dispatch people out of the county to expand their vision, and mobilize the masses to go out and have a look. With the permission of the prefectural commissioner's office, they can go to look at other provinces. People with brains and a sense of the cause should be sent to learn the experiences of others, not to tour scenic spots.

CSO: 4006/142

## MINERAL RESOURCES

### BRIEFS

SHANDONG CEMENT ROCK AREA--The third geological team of the Shandong Provincial Geological Mining Bureau recently discovered a large cement rock area [shui ni hui yan kuang qu 3055 3136 3509 1484 4349 0575] on a mountain rear Xiangkuang of Zanggezhuang town, Quxia County. The area is 9,000 meters long and 700-800 meters wide. The ore is of first grade. In the Xiangkuang 1,600-meter-long area alone, more than 100 million tons of reserves have been preliminarily verified. [Excerpt] [Jinan DAZHONG RIBAO in Chinese 30 Oct 84 p 1 SK]

SHANDONG GOLD MINE--Zhaoyuan gold mine. China's largest gold mine, prefulfilled the annual plan by 2 months. In November, it increased gold output by 4,628 liang, which brought an additional output value of 2.37 million yuan, and a profit of 1.2 million yuan. [Excerpt] [Jinan Shandong Provincial Service in Mandarin 2300 GMT 4 Dec 84 SK]

HEILONGJIANG GOLD PRODUCTION--A certain PLA unit stationed in Xiaoxinganling, Heilongjiang Province, produced 6,900 liang of gold from mid-May to late October this year, overfulfilling the state assigned plan by 2,400 liang. [Summary] [Harbin HEILONGJIANG RIBAO in Chinese 26 Nov 84 p 1 SK]

LIAONING NEW SANDSTONE MINE--The No 6 geological team of the Liaoning Provincial Geological and Mining Bureau discovered an extra large mine of sandstone at (Ronghua) Mountain in Zhuanghe County recently. These minerals are of fine quality and are more than 99 percent carbon silicon, which are suitable for making glass, ceramics, and industrial raw materials. The thickness of the sandstone mine is from 100 to 150 meters, with a total deposit estimated at more than 40 million tons. [Excerpts] [Shenyang Liaoning Provincial Service in Mandarin 2200 GMT 1 Dec 84 SK]

CS0: 4006/183

## INDUSTRY

### HAINAN INDUSTRIAL PRODUCTION PROGRESS RESULTS

HK121004 Haikou Hainan Island Service in Mandarin 0400 CDT 11 Dec 85

[Text] The situation in industrial production in our region is good this year. By the end of November, the whole region had overfulfilled the annual target for the total industrial output value, amounting to an increase of 21.45 percent over the same period of last year. State-owned industrial enterprises listed in the budget realized a profit of 15.94 million yuan, an 832 percent increase over the same period of last year. Taxes increased by 40.1 percent over the same period of last year. Industrial production and operation hit the first record high since 1978. This year, the situation in our region's industrial production and operation has four characteristics:

1. Production has increased by a large margin and is continuing to increase. This shows that our region's industrial production and operation are gradually suited to the new situation.

2. Economic results are good. Statistics at the end of November revealed that the all-personnel labor productivity of state-owned industrial enterprises in our region increased by 17.58 percent over the same period of last year; the tax for each 100 yuan output value increased by 21.2 percent over the same period of last year, and the tax for each 100 yuan sale increased by 27.3 percent over the same period of last year.

3. Economic and technological exchanges with the rest of the country have gradually developed. This year, representatives of enterprises from Shanghai, Beijing, Tianjin, Jilin, Liaoning, Jiangsu, Yunnan, Guizhou, Sichuan, Hubei, Fujian, and Guangdong, and of enterprises under central departments such as the Ministry of Electronics Industry, the Ministry of Astronautics Industry, the Ministry of Machine Building Industry, and the Ministry of Electrical Appliances have come to our region to hold business discussions and to sign agreements on economic and technological cooperation with our region. Hong Kong and foreign businessmen have also come to our region to sign agreements on industrial cooperation. By the end of November, our region had signed agreements with units in the hinterland and foreign businessmen on 145 projects, with a total investment of 493 million yuan. One half of the projects have begun operation. This has an important bearing on solving the funds for developing our region's industrial production and on promoting technological and managerial progress in our region.

4. The slump which continued for 3 years in second light industrial production has been stopped. Since May this year, second light industrial production has increased at the rate of 2 percent each month. Most of the second light industry supply and marketing companies in cities and counties have made profits, and trade between them is thriving.

C30 4000/175

## INDUSTRIES

### DATELINE

JILIN INDUSTRIAL OUTPUT--As of November end, Jilin Province's total industrial output value was 16.97 billion yuan, an increase of 12.8 percent over the corresponding 1983 period. The industrial enterprises had fulfilled 97.4 percent of the 1984 annual output value plan. [Summary] [Changchun Jilin Provincial Service in Mandarin 1030 GMT 11 Dec 84 SK]

LIAONING INDUSTRIAL OUTPUT VALUE--As of November end, Liaoning Province had created more than 52.4 billion yuan of industrial output value, fulfilling the annual quota by 97.2 percent and showing a 10.5 percent increase over that of the corresponding 1983 period. [Excerpt] [Shenyang Liaoning Provincial Service in Mandarin 1030 GMT 9 Dec 84 SK]

NEI MONGGOL INDUSTRIAL PRODUCTION--Industrial and communication enterprises in Nei Monggol Autonomous Region have made steady progress in the course of reform and industrial production has increased continuously. They created 7,214,760,000 yuan of industrial output value in the January-November period, of which 784.69 million yuan was created in November, creating a new monthly record. [Excerpt] [Hohhot Nei Monggol Regional Service in Mandarin 1100 GMT 9 Dec 84 SK]

INDUSTRIES FULFILL QUOTAS EARLY--Beijing, 6 Dec (XINHUA)--The total output quotas in the sixth 5-year-plan of Beijing's industries were met 390 days ahead of schedule yesterday, according to today's BEIJING DAILY. The sixth 5-year plan puts the total output value of Beijing industry for 1985 at 26 billion yuan. It is estimated that the quotas for about 20 kinds of major industrial products will be fulfilled by the end of this year. They include rolled steel, pig iron, coal, motor vehicles, chemical fertilizers, cement, cigarettes, beer and refrigerators. The city's agricultural products quota was attained as early as last year. It is estimated that the value of agricultural products will reach 3.2 billion yuan by the end of this year, 33 percent more than scheduled. Grain, eggs, meat, fish, and other major agricultural sideline products will be produced on schedule this year. The circulation of commodities has been streamlined, while agriculture and industry are developing rapidly, the paper said. Beijing's total retail sales have reached their quota 13 months ahead of schedule. [Text] [Beijing XINHUA in English 1234 GMT 6 Dec 84]

## CONSTRUCTION

### BRIEFS

HAIKOU AIRPORT EXPANSION--A major project in the development and construction of Hainan, the Haikon airport expansion program, officially got under way today. This project includes the extension of runways, taxiways, communication routes and parking aprons. The expansion program will enable the airport to handle the BOEING 707. According to plans, major runway construction will be finished by the end of this year and it will be operational by the spring of 1985. [Text] [Guangzhou NANFANG RIBAO in Chinese 10 Nov 84 p 1]

CSO: 4006/161

## FOREIGN TRADE AND INVESTMENT

### CONSTRUCTION OF PETROCHEMICAL PLANT TO START AT END OF YEAR

Guangzhou YANGCHENG WANBAO in Chinese 5 Aug 84 p 1

[Article: "Construction of China's Largest Wholly-owned Enterprise Will Start at End of Year in Shantou"]

[Text] After more than 1 year of preparations, the various items of preparatory work for the largest wholly-owned enterprise in China, the International Petrochemical Group Limited Corporation, approved by the State Council on 8 December 1982, are basically in order, and the first phase of the project will start at the end of December in Guangao, covering an area of 30 square kilometers and located at the southeastern tip of Shantou's Dahao Island.

The International Petrochemical Group Limited Corporation is composed of 33 international banks. With a total investment of over \$5 billion, it is a large enterprise with its focus on petrochemistry with synchronized development of accessory industries. When completed, the amount of its annual oil refining will be 10 million tons, equivalent to 10 percent of China's current national petroleum output. For the first phase of the project to be started at the end of the year, the planned investment is \$1 billion. Construction will include facilities for oil refining, chemical industry, plastics, power plants and some living facilities, and the production capacity will constitute 40 percent of the overall plan.

To create a favorable investment environment for foreign firms, Shantou City has made an advance head start in the development of the Guangao industrial district. It has specially formed the China Guangao General Corporation and plans to invest 500 million yuan for industrial and living facilities serving the integrated petrochemical industry, including channeling from the city 10 flow capacities of running water, erecting the 3-kilometer ocean-spanning Mayu Bridge directly linking the city and building two deepwater wharves with 20,000-ton berths. Currently, the overall plan for the entire development area has been basically achieved, the geological and hydrologic surveys will soon be concluded, and an intense effort is underway to complete other items of preparatory work.

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## SPECIAL ECONOMIC ZONES

### SHENZHEN GRADUALLY INTRODUCES FLOATING PRICING

Guangzhou YANGCHENG WANBAO in Chinese 17 Aug 84 p 2

[Article: "Shenzhen Gradually Introduces Floating Pricing To Coordinate with International Market"]

[Text] According to the figures of Shenzhen's largest general commercial corporation, floating pricing is followed for 72 percent of the commodities handled by its 11 subordinate companies, while planned pricing covers only 28 percent. It indicates that Shenzhen's commodity pricing is gradually moving from planning to floating pricing and forming its own pricing system. The purpose of the reform is to build a pricing system and management method stressing market forces so that the commodity prices of the special zone will gradually coordinate with the international market.

Shenzhen's commerce includes many economic forms, such as wholly-owned foreign enterprises, joint operation with inland firms, local state-owned, collective and individual, and most of them follow the mode of comprehensive pluralistic operation. The administrative leadership in charge of commerce mainly relies on economic information to make proper market forecasts, implements guidance plans and encourages competition, thereby enlivening the market more and more.

Commodity purchasing in Shenzhen also changes with the pricing. The proportion of planned commodity intake is gradually decreasing, and more and more purchases are made directly from the foreign trade ports, producing areas, and plants in the various provinces and cities. In the first half of the year, planned purchasing only constituted 20 percent of the total purchases made by the city's general commercial corporation, and the rest were all made independently, thereby reducing circulation links and increasing competition.

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## SPECIAL ECONOMIC ZONES

### SHENZHEN TO LAUNCH 10 REFORMS

Guangzhou YANGCHENG WANBAO in Chinese 10 Aug 84 p 1

[Article: "Shenzhen Will Launch 10 Economic Reforms in the Second Half of the Year"]

[Text] Reporters Cheng Kai [4453 0418] and Gong Zhijin [7895 1807 3966] report the following: Shenzhen will launch 10 reforms in the second half of the year in order to build a management system geared to the characteristics of a special economic zone.

At the trilevel cadres meeting concluded the other day, Liang Xiang [2733 3276], Shenzhen's municipal party committee secretary and mayor, explained the substance of the 10 reforms.

First, the special zone will further reform the planning and price management systems, introducing guidance planning and establishing the pricing system and management method of giving priority to market forces. It will further reform the enterprise management system, further separate government administration from industry management, comprehensively introduce the plant chief (manager) responsibility system for state-owned enterprises and the plant chief (manager) responsibility system under the leadership of the board of directors for enterprises of wholly-owned foreign enterprises and joint Chinese-foreign cooperative enterprises, further enlarge the self-governing power of the enterprises, and make all enterprises economic entities which operate independently and take sole responsibility for profit or loss. It will also introduce reform in the realm of circulation, building an open-style system with more channels and fewer links. Under the unified guidance of state policy, the enterprises will independently manage their import and export commodities. In the supply of goods and materials, the current wholesale levels and boundaries between regions and industries must be broken down and trade centers of all types created, thereby directly linking production and purchasing with marketing. It will also reform the fiscal, taxation and banking systems. In fiscal work, the special zone must eliminate the practice of giving attention only to revenue and expenditures and ignoring operation, develop toward pluralism, directly participate in investment and operational activities, make earnest arrangements for its own four local financial structures, launch and develop its own business, actively prepare for the issuance of its own currency.

In reforming the management systems of capital construction, administration, personnel, labor and wage, and ports, there is hope for new breakthroughs in the second half of the year. In capital construction, the special zone plans to simplify the procedures for examination and approval and implement, when affirmed by legislation, the practice of bidding for projects. In administration, the focus is to simplify the government and delegate power and to enlarge the self-governing power of Shenzhen's five prefectures and Baoan County. To improve the efficiency of the administrative departments, it has been decided that, in the future, when the departments concerned make no reply to the reports submitted by the lower units, they are considered approved. In personnel, the special zone will adopt the method of management and responsibility by levels, reduce the sphere of cadre appointments and extend the practice of combining mass recommendation with organizational assessment and of election and employment. In labor and wages, the practice of low wages and high subsidy will be changed, and the enterprise units will introduce manifold forms of wage payments, such as floating and piece-rate wages. In port management, the special zone will introduce the system of integrating the levels with the departments and giving first place to the latter, further simplify the entry and exist procedures, and formulate the two-line management system.

It is reported that the Shenzhen municipal party committee and government will soon call a special meeting to further study and implement the 10 reform measures.

The people in Shenzhen generally feel that, under the new situation, only by pursuing the reforms will the special zone develop continuously and have a future. They believe that, through this series of reforms, the special zone will begin a new phase in its construction and continue to supply fresh experiences for China's reforms and opening up.

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## LABOR AND WAGES

### SHENYANG SPONSORS DOMESTIC SERVICE TEAMS

OW051115 Beijing XINHUA in English 1031 GMT 5 Dec 84

[Text] Shenyang, 5 Dec (XINHUA)--More residents in Shenyang, a heavy industrial center in northeast China, are expected to be relieved from household chores with the advent of domestic service teams early this year.

There are 30 housework service teams, sponsored by the city's labor service company, employing more than 500 retired workers and school leavers waiting for job assignments. They help working couples and families who have difficulty in coping with day-to-day chores.

Shenyang, capital of Liaoning Province, has about 700,000 households, whose chores are traditionally done by the retired members of the family, housewives or workers themselves in their spare time. According to an official of the municipal labor service company, the daily chores usually take an individual family 3 to 4 hours to complete.

"Now things have become much easier for us," said a worker who lives in the Heping District of the city. "Whenever I am in need of help, I just telephone the service team and they come over at the appointed time to do what I want."

Services range from housing renovation and decoration, furniture and electrical appliance repairs to washing and sewing clothes, attending to the old and the sick, and doing the shopping. They also supply home help to those families that can afford it.

Service charges are reasonable, the official of the municipal labor service company said, citing an example of three service workers helping whitewash rooms for a family in the Beishi District. The job took the workers 3 days to complete, yet they charged only 20 yuan.

A service team in the Heping District supplied a home help for a bed-ridden old man so that his family members can now go out to work without worrying.

CSO: 4020/43

## LABOR AND WAGES

### LABOR UNIONS SHOULD SUPPORT WORKERS' SELF-STUDY

Beijing GONGREN RIBAO in Chinese 27 Oct 84 p 1

[Article by Staff Commentator: "Labor Unions Should Strive To Support and Encourage Self-Study by Workers"]

[Text] "The Resolution of the CPC Central Committee Concerning the Restructuring of the Economic System: clearly points out: "Science and technology and educational institutions have an extremely important effect on the development of the national economy," and "we must value knowledge and value talented personnel in socialist modernization and construction." Striving to support and encourage the self-study of workers is an important road to take toward training talented personnel. Union organizations at all levels must consider this to be a significant task to be undertaken.

The content of the workers free self-study should be highly suitable, should not be divorced from production, should not be restricted by time and space and other conditions, should not require a large amount of investment from the state, should yield outstanding results and should train a large number of many different types of specialized personnel who meet the needs of the four modernizations. Especially with the extremely rapid development of science and technology in the world today, people must continuously study and master new science and new technology, and self-study is an important form. The type of viewpoint that "self-study cannot produce talented personnel" must be smashed. Union organizations must put forth great effort to comprehend this work, take the initiative to create all the conditions for self-study, understand the difficulties and problems which they meet, have a few demands and aspirations, vigorously take the initiative to care for and support workers, pave roads and build bridges for their self-study and fight against all of the ideology and behavior that looks down on science and technology, intellectual development and intellectuals. This meets the requirements of the new situation and actively serves economic restructuring, and it also a specifically embodies the spirit of using restructuring to open up new realms in union work.

After the workers have undergone long and painstaking self-study, there must be a large group of people who have mastered real ability and learning and who will become the backbone of the production line and scientific research posts. Their intelligence and competence must be recognized by society and it should be regarded and used by enterprises; it can then produce even greater economic results for society. But doing this will touch on a series of actual problems and policy problems, and this is fairly complicated work. We must study the experience of Heilongjiang's union organizations, and on one hand we must set out from the new circumstances of an investigative study, pay attention to establishing a self-study model, strive to commend outstanding achievers, broadly publicize their experience and accomplishments and get the attention of society; on the other hand we must actively take the initiative to consult and study with the relevant departments and specifically study the new problems that desperately need to be solved as a result of workers' self-study. Union organizations at all levels need only to solidly and perseveringly master this to be able to make a proper contribution toward bringing up a new generation and toward the intellectualization of the working class.

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## LABOR AND WAGES

### BRIEFS

WORKERS' EXCHANGE CENTER--China's first workers' exchange center with foreign countries held opening ceremonies on 28 October 1984 in Shanghai, and Shanghai's Vice-Mayor Li Zhaoji [2621 5128 1015] personally unveiled this exchange center. The Shanghai Workers' Exchange Center with Foreign Countries is a group of Shanghai workers and workers from countries throughout the world who initiate friendly exchanges, advance unified cooperation and safeguard world peace. The groups main tasks are to develop friendly exchanges with workers from foreign countries and to strengthen patriotic unity with workers from Hong Kong, Macao and Taiwan, to develop technological exchanges between groups and organizations of Chinese and foreign workers and to help Shanghai's factories and enterprises master the actual operational skills and maintenance technology for importing equipment and to bring in foreign trade, technology and equipment through friendly workers groups so as to make a contribution to transforming and vigorously developing Shanghai. [Text] [Guangzhou NANGFANG RIBAO in Chinese 29 Oct 84 p 1] 12437

CSO: 4006/92

## TRANSPORTATION

### STATE COUNCIL COMRADE VISITS GUANGDONG OPEN PORT

00120544 Beijing; XINHUA Domestic Service In Chinese 0015 CRT 17 Dec 84

[By reporters Yan, Chunnan and Yuan Lu]

[Text] Guangzhou, 12 Dec (XINHUA) --Zhongshan Harbor, a new port to be opened to the outside world, has begun to take shape after 3 months of construction. During a recent visit to Zhongshan Harbor, a leading comrade of the State Council praised its speedy construction.

Located at the mouth of Zhujiang, Zhongshan Harbor was originally a small port called Hengmen. In May this year, the State Council approved the harbor's opening to the outside world. Only 53 nautical miles from Hong Kong, 51 nautical miles from Macao, and 17 kilometers from Zhongshan city, Zhongshan Harbor can serve as a convenient shipping link between China's major coastal ports.

The planned total harbor area is 42 square kilometers including a freight shipping operation area, an industrial processing area, a cultural, scientific research, and residential area, and a tourist area. Currently, all basic facilities, including freight handling docks for 5,000-ton and 3,000-ton class freighters, over 2,000 square meters of warehouses, and a 7,000-square-meter stacking area, have been completed. Sixteen large buildings, including a joint customs inspection building, a port operation office, a passenger terminal, a combined service station, and other facilities needed for an open port, already tower over the harbor area and are being fitted for occupancy. Construction of a 40-meter wide harbor highway and a 32-meter wide harbor entrance highway is being stepped up.

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## TRANSPORTATION

### CHINA DAILY ON GROWTH OF CIVIL AVIATION INDUSTRY

HK010314 Beijing CHINA DAILY in English 1 Dec 84 p 4

[Article by Wang Baoshu]

[Text] The country's aviation industry has grown out of nothing since the founding of New China.

At the beginning of the First Five-Year Plan (1953-1957), China started building the industry on the principle of self-sufficiency in aircraft, aero-engines and accessories. By the mid 60's, the industry had started taking shape, with research, design, and development centers and manufacturing facilities.

There are now three institutes involved in research and the design of civilian aircraft and engines; six factories devoted to aircraft research, development and production; and four factories working on engine research, development and manufacture. They employ 80,000, nearly 10,000 of whom are engineering and technical staff.

There are advanced wind tunnels, test facilities, computer-aided design and simulation equipment.

In the early 50's, the first aircraft to roll out of the workshop was a Y-5. Nearly 100 had been exported by the end of 1983. Later, production of Z-5 helicopters was started.

Since the 60's, China has developed Y-7 commuter aircraft; Y-9 medium and long-range cargo planes, Y-10 long-range passenger aircraft, Y-11 and Y-12 small multi-purpose aircraft, Z-9 light multi-purpose helicopters, the French "Dauphine" helicopter with its power plant produced under licence.

The Y-7, Y-8 and Y-11 have passed certification by the authorities. The Y-12 will be certified soon. Since the Y-7 was certified in 1982, it has been modified more than 50 times.

CAAC placed the first order for three in 1983. The first was delivered to CAAC's Shanghai Branch in January and is used as a cargo plane. It has a better take-off performance at high temperatures and from high altitude runways than the AN-24 aircraft. CAAC now holds an optional

order for another 12 by 1985. The Y-8 is mainly used for carrying heavy cargo, equipment and vehicles.

Since 1982 China has independently designed and developed the ultra-light Dragonfly-5 (W-5), Dragonfly-5A (W-5A), Bee-2 and Bee-3 aircraft. Businessmen from the U.S., UK and Hong Kong showed great interest in these ultra-light aircraft during the Guangzhou Fair in autumn 1983 and signed contracts for 107.

State farms, forestry farms, sports schools, and vegetation protection stations place orders, and many production brigades from the countryside are eager to do so. By March 1984, contracts for 30 had been signed and letters of intent for about another 50 with domestic users.

To meet the domestic and foreign demands, the Hongxing Machinery Factory and the Beijing Institute of Aeronautics and Astronautics have been developing new ultralight aircraft.

The China National Aerotechnology Import and Export Corporation, under the guidance of the open policy, has pursued a wide range of possibilities with manufacturers from abroad on technical cooperation and the import of technology.

At first, it processed customer's materials to build parts and sub-assemblies for aircraft like the Boeing 737 and 747; DC-9 Super 80; BAE-146; and CL-215.

It is also exploring the possibility of cooperative production, joint design, and the development of new types of aircraft. The corporation has established wide business contacts with many countries and regions in the world.

To modernize energy, communications and agriculture, there must be a wider demand for civil aviation. Therefore, further development of civil aviation is vital.

It is tentatively planned that, during the period of the Seventh Five-Year Plan (1986-1990), China will import technology from abroad and give prominence to the research, development and manufacture of new civilian aircraft--concentrating on small multi-purpose cargo aircraft and new commuter aircraft. China will continue to modify the Y-7 and pay close attention to the development of agricultural and forestry aircraft.

China will strive for self-sufficiency in cargo aircraft the size of commuter planes, special aircraft, small and medium-size helicopters, as well as ultralight aircraft by the 1990's.

By the year 2000, China will be able jointly to design and produce passenger aircraft for domestic routes.

Many European and American aircraft companies, engine companies, and airborne equipment firms have made approaches to cooperate with China. China will meanwhile adopt more flexible policies to attract overseas investment and set up joint ventures.

## TRANSPORTATION

### BRIEFS

**CONTAINER SHIP LAUNCHED**--Hefei, 5 Dec (XINHUA)--"Tian Yan," the first container ship designed and manufactured by China, which is capable of carrying 300 containers, was launched today at the Wuhu Shipyard. The ship's maximum loading capacity is 4,100 tons; it is 119 meters long, 18 meters wide, 8.5 meters high, and has a draught of 5.8 meters. It is capable of shipping containers and cold storage containers. The ship was designed by the China Steamship and Marine Engineering Design and Research Institution, and was manufactured by the Wuhu Shipyard. [Excerpts] [Beijing XINHUA Domestic Service in Chinese 1319 GMT 5 Dec 84 DW]

**SHANDONG YIYANG RAILROAD CONSTRUCTION**--Construction of the Yiyang Railroad from Yidu to Yangkou Salt Plant in Shandong Province began on 28 October. This railroad, which is 72.55 km long, runs through Shouguang and Yidu counties and links the Jiaozhouwan-Jinan railroad at one end and Dalijawa town of Shouguang County at the other. [Summary] [Huan DAZHONG RIBAO in Chinese 2 Dec 84 p 1 SK]

**JILIN AIRPORT EXPANSION**--The expansion project of the Dafangshen Airport in Jilin Province has been approved by the state. The Dafangshen Airport is located in Changchun City. At present, this airport can only accommodate small-sized airliners, and its flight service extends only as far as Beijing. After the expansion, this airport will be able to accommodate large airliners, such as the Trident, the Boeing 707 and the Boeing 737, and will be able to increase the number of flights. Construction of the expansion project will begin next spring, and will be completed and made available to users in the second half of 1985. [Summary] [Changchun Jilin Provincial Service in Mandarin 1030 GMT 23 Nov 84 SK]

**ZHEJIANG CARGO SHIP**--China's first 600-ton, long-voyage transport ship to navigate specific international routes was launched at Ningbo, Zhejiang, on 9 December. Built by Ningbo's (Guanwen) Shipbuilding and Repair Plant for the Fujian Marine Products and Ocean Shipping Company, the vessel is 65 meters long, and displaces 1,500 tons when fully loaded. [Text] [Hangzhou Zhejiang Provincial Service in Mandarin 0400 GMT 10 Dec 84 DW]

**LIAONING NEW HARBOR**--Another new harbor in Liaoning Province--the Huludao Harbor in Jinzhou--went into operation on 6 December. The harbor will play an important role in invigorating the economy of Jinzhou as well as the province. [Summary] [Shenyang Liaoning Provincial Service in Mandarin 1030 GMT 7 Dec 84 SK]

NEW SELF-PROPELLED GLIDER--Shenyang, 8 Dec (XINHUA)--China's first self-propelled glider gave a demonstration flight on Friday at the manufacturing plant in Shenyang. The glider, seven meters long and 2.15 meters high, is suitable for forest fire control, geological surveys, road and railway line selection, power transmission line patrol, animal husbandry, aerial photography, pesticide spraying and short-distance transport. With a 72-horsepower piston engine, the twin-seat plane can carry 25 kilograms of cargo for four hours at a stretch at a maximum speed of 150 kilometers per hour. Before the demonstration, the plane had successfully completed an eight-day flight trial. The manufacturers--the Shenyang Glider Plant--is the country's largest. Since its founding in 1956, the plant has manufactured a total of 2,200 gliders for civil use. [Text] [Beijing XINHUA in English 0829 GMT 8 Dec 84 OW]

SHIP CARGO TRANSPORT--Beijing, 5 Dec (XINHUA)--China has fulfilled its 1984 plan for cargo transport by ships, the Ministry of Communications announced today. By December 4, fleets operating under the ministry had transported more than 158 million tons of cargo, more than any previous year. This was 0.3 percent above the planned target for this year and 10.7 percent over the figure for the same period of 1983. [Text] [Beijing XINHUA in English 1251 GMT 5 Dec 84 OW]

HIGHWAY TRANSPORT CONFERENCE--Chengdu, 7 Dec (XINHUA)--China has built or rebuilt 44,000 kilometers of highways since the beginning of this year, bringing its total to 930,000 kilometers. Some new highways are financed by peasants to facilitate commodity production now being encouraged to develop a market-oriented rural economy, according to a national highway transport conference now in session in Meishan County, Sichuan Province. [Text] [Beijing XINHUA in English 1601 GMT 7 Dec 84 OW]

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PUBLICATIONS

WORK ON ACCOUNTING VOLUME OF ECONOMICS DICTIONARY ANNOUNCED

Beijing KUALI YANJIU [ACCOUNTING RESEARCH] in Chinese No 3, 30 Jun 84  
p 47

[Article: "First Editorial Working Conference on 'Accounting Volume of Economics Dictionary' Held in Xianyang"]

[Text] The first editorial working conference on the "Accounting Volume of Economics Dictionary" [Jingji Da Cidian, Huiji Quan] was held on 19 to 28 April in the Shaanxi color kinescope factory in Xianyang.

Editors-in-chief Professors Yang Jiwan [2799 4764 3834] and Lou Erxing [1236 1422 5887] co-chaired the conference, assistant editors Zhao Yumin [6392 3768 3787], Ge Jiashu [5514 1367 3412], Yu Xuying [0151 4872 4964] and Yang Shizhan [2799 2514 1455], all parts of the editorial committee and composers of related entries participated in the conference, and assistant editor Yan Dawu [7051 6671 0063] asked for leave of absence to attend to personal affairs and did not attend the conference. Comrade Chao Feng [1560 1496], assistant director of the Shanghai Dictionary Publishing House and assistant editor in chief of the "Economics Dictionary" also participated in the conference.

The conference held serious discussions on standardization problems in selecting words and defining terms for the "Accounting Volume of Economics Dictionary." The conference believed that the "Accounting Volume" is the first specialized dictionary which our country's accounting theory circles have organized their forces to collectively compile since the founding of the country, and it will fully reflect the scientific standards of our country's present accounting discipline, have distinctive Chinese features, and serve practical economic construction. Its accounting entries should form a comprehensive system, and its definitions should be authoritative.

The conference examined the list of terms, tentatively determined the list of terms to be selected, discussed trial definitions for all classes of word lists, drafted basic principles for composing definitions, and laid a good foundation for the work of compiling the whole volume.

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